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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON, Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE

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AZ CORP COMMISSION  
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IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON  
FOR UTILITY SERVICE BY ITS SUN CITY  
WATER DISTRICT

DOCKET NO. W-01303A-07-0209

**ARIZONA-AMERICAN WATER  
COMPANY**

**NOTICE OF FILING  
DIRECT/REBUTTAL TESTIMONY**

1 Arizona-American Water Company ("Arizona-American") hereby files in the above-  
2 referenced matter:

- 3 • Rebuttal testimony from Thomas M. Broderick;  
4 • Rebuttal testimony from Linda J. Gutowski;  
5 • Rebuttal testimony from Bradley J. Cole;  
6 • Direct testimony from Cindy Datig.

7 Arizona-American is filing Ms. Datig's Direct Testimony in response to RUCO's request  
8 to review and evaluate the Low-Income Assistance Program proposed by Mr. Broderick in his  
9 direct testimony.

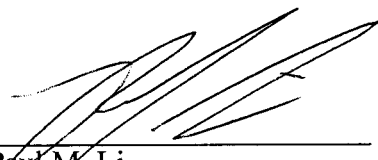
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1                   **RESPECTFULLY SUBMITTED** on November 30, 2007.

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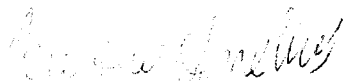
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON, Chairman  
JEFF HATCH-MILLER  
WILLIAM A. MUNDELL  
KRISTIN K. MAYES  
GARY PIERCE

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WATER DISTRICT

DOCKET NO. W-01303A-07-0209

**REBUTTAL TESTIMONY  
OF  
THOMAS M. BRODERICK  
ON BEHALF OF  
ARIZONA-AMERICAN WATER COMPANY  
NOVEMBER 30, 2007**

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**EXHIBIT TMB-R1: FIRE FLOW SURVEY**

**EXHIBIT TMB-R2: TOWN OF PARADISE VALLEY RESOLUTION NO. 1156**

**REVISED EXHIBIT TMB-1: ESTIMATED COST OF FIRE FLOW IMPROVEMENTS**

**EXHIBIT TMB-R3: NEW LONG-TERM DEBT MATURING 2037**

**EXHIBIT TMB-R4: RATE CASE EXPENSE UPDATE**

## **EXECUTIVE SUMMARY**

In his rebuttal testimony Thomas M. Broderick testifies as follows:

### **RETURN ON EQUITY**

Arizona-American accepts Staff witness Mr. Irvine's recommendation that the Commission adopt a 10.8 percent return on equity ("ROE"). As a result of accepting Staff's recommendation, Arizona-American no longer offers its own independent recommendation of 11.3 percent in this rate case, as originally sponsored in the direct testimony of Mr. Joel Reiker.

RUCO's ROE testimony has two flaws. Rather than adding the required financial risk adjustment to the midpoint (9.75%) of what he concludes to be the best estimate of an appropriate range of estimates, Mr. Rigsby adds his financial risk adjustment to something lower than the midpoint of that range (9.52%). Further, Mr. Rigsby's 50-basis point adjustment is arbitrary and well below the basis-point adjustments the Commission has recently provided.

### **CAPITAL STRUCTURE**

Staff inappropriately recommends inclusion of \$24,391,823 of short-term debt in the total debt structure. This has the consequence of increasing Arizona-American's debt ratio from 58.6% to 61.5%. The flip side of this is to depress the equity ratio from 41.4% to 38.5%. This is an important issue for the Commission to continue to get right, as the cost of equity is roughly double the cost of debt. It is difficult enough that Arizona-American's actual financial results are creating negative retained earnings, which then get reflected in the capital structure updates that occur throughout rate cases such as this one. It is not helpful for Staff to find additional ways to depress Arizona-American's equity ratio.

Staff again has not met its burden of showing that its snapshot balance of short-term debt is representative of Arizona-American's typical short-term debt level. Staff also has not shown that short-term debt is being used to finance long-term, rate-based assets as opposed to financing CWIP, which the Commission has historically excluded from rate base for Arizona-American. Therefore, the Commission should continue to reject the inclusion of an arbitrary short-term debt balance from Arizona-American's capital structure.

### **COST OF DEBT**

On October 22, 2007, American Water Capital Corp ("AWCC") issued notes for signature by Arizona-American for \$16,450,000 in debt maturing October 2037 at an interest rate of 6.593%. Exhibit TMB-R3 contains this new note. Arizona-American will not seek recovery of the slight excess in interest expense in rates. The forecasted \$15 million equity infusion from American Water to Arizona-American occurred this month – November 2007.

Rebuttal Schedule D-2, page 2 displays a cost of debt of 5.5% under the heading of the projected year ending June 30, 2007. Rebuttal Schedule D-1, page 3 displays the accepted 10.8% ROE and the capital structure of 58.6% debt and 41.4% equity for an overall 7.7% cost of capital under the same heading of the projected year ending June 30, 2007. These amounts flow into the revised revenue requirement.

### **SURCHARGE FOR FIRE-FLOW PROJECTS**

Arizona-American will sponsor two public meetings in Sun City and Youngtown on December 12, 2007 and will review details of the Fire flow Project with the assembled local residents. It is puzzling that RUCO doesn't make more of an effort to speak directly with residential customers concerning these projects.

1  
2 While it is true that Arizona-American is proposing to implement a series of step increases in the  
3 fire-flow surcharge without the cost and effort of another rate case, the Commission or any party  
4 in the current rate case will be able to review the reasonableness of fire-flow expenses to-date in  
5 the next Sun City Water District rate case.

6  
7 Support in Paradise Valley for the fire-flow improvement project remains strong, but support for  
8 using the High Block surcharge to fund the improvement project has eroded. The Town of  
9 Paradise Valley believes that a change in the surcharge mechanism for funding the  
10 improvements is needed.

11  
12 There is no water-industry conspiracy to expend capital funds in order to massively increase rate  
13 base in built-out communities to maximize earnings at ratepayer expense. If there was such a  
14 conspiracy, Arizona-American would certainly not be a part of it, because it does not need to  
15 increase rate base.

16  
17 The Town of Youngtown supports Arizona-American's proposed surcharge mechanism or its  
18 equivalent.

19  
20 It is neither necessary nor helpful for the Commission to order the fire-flow construction.

21  
22 The revised total estimated cost for the Fire-Flow Project is nearly \$4.9 million. Staff's estimate  
23 is much too low.

24  
25 Arizona-American has not provided a rate design for the surcharge to recover fire-flow expenses  
26 which Staff labeled Fire Flow Cost Recovery Mechanism ("FCRM"). The Company does prefer  
27 to follow the rate design precedent established in the ACRM surcharge which assigned 50% of  
28 the cost to the basic service charge and 50% to the water commodity charge. The Company does  
29 not intend to include O&M cost increases in the FCRM.

### 30 31 **NEW LOW INCOME PROGRAM**

32 The Sun City Taxpayers Association expressed support for the program to Mr. Broderick.  
33 RUCO, in its direct testimony, expressed enthusiastic support, as long as we meet Mr. Coley's  
34 stated criteria (direct testimony page 31, lines 1 through 9) that a low income program:

- 35 • properly targets customers;  
36 • creates material benefits for participants;  
37 • does not overly burden non-participants; and  
38 • is efficiently administered.

39  
40 The Company asks the Commission to authorize the low-income program co-sponsored by Ms.  
41 Cindy Datig and Mr. Broderick and include the amount of anticipated low-income discounts into  
42 the rate design in this case, with the understanding that the Company would refund at a later time  
43 any over-collection of revenues, if program enrollment is less than the target 1,000 residential  
44 customers.

45  
46 Ms. Datig estimates the on-going annual program cost will be approximately \$30,000. The total  
47 maximum amount of the discount would be approximately \$50,000 annually for 1,000 customers  
48 participating year-round.

49  
50 There were 22,878 residential and commercial Sun City Water customers in the test year.  
51 Therefore, the 50% discount on the basic service charge for 1,000 residential customers would  
52 cost roughly \$2.29 per year ( $=\$50,000 / (22,878-1,000)$ ) or \$0.19 per month for non-participants.

1  
2 The Company proposes to raise the last-block pricing by \$0.08 per 1,000 gallons for non-  
3 participant residential and all commercial customers. Based on adjusted test year volumes, this  
4 produces approximately \$50,000 of revenue to make up for the equivalent loss of basic service  
5 charge revenues for low-income customers enrolled in the low income program.

6  
7 Arizona-American is willing to establish a voluntary additional payment feature (e.g., \$1 extra)  
8 on customer bills as an additional contribution to the low income program.

9  
10 Customers in our Mohave, Havasu, and Tubac districts especially need a low-income program,  
11 even more than Sun City. However, there are probably too few non-low income residents in  
12 these communities to fund the low income program, so that funds should be generated and  
13 shared across districts.

#### 14 15 **RATE CASE EXPENSE**

16 Exhibit TMB-R4 displays total rate case expense of \$94,266. The annual amortization of that  
17 expense over three years is \$31,422. This estimate incorporates Staff's recommendation of  
18 \$17,500 for the fire-flow survey and eliminates expense for the cost-of-equity witness.

#### 19 20 **RATE DESIGN**

21 Arizona-American accepts Staff's recommendation to reduce break-over points in the rate design  
22 as per Schedule SPI-1.

#### 23 24 **ACHIEVEMENT INCENTIVE PAY**

25 The Commission should reject Mr. Coley's Operating Expense Adjustment #8 contained in his  
26 Schedule TJC-8 because the case precedent he cites in the recent Paradise Valley rate case does  
27 not apply to Sun City Water. The Sun City Water District is a former Citizens' property and  
28 Arizona-American's adjusted test-year results reflect a net loss in this district (and as a whole for  
29 that matter). Hence, any increase in net income attributable to employees achieving financial  
30 targets during the test year only helped reduce overall losses in this timeframe, not create profit.  
31 In other words, employees met financial targets established in the incentive plan for Arizona-  
32 American by coming closer to plan, not by achieving positive net income. This reduces our  
33 ongoing equity erosion and helps Arizona-American to achieve the shared goal of a 40% equity  
34 ratio. Therefore, it is appropriate to reward employees for reducing losses and helping to create a  
35 healthier utility, which clearly benefits customers. American Water has shown remarkable  
36 restraint during this period of losses by Arizona-American. The Commission should support an  
37 incentive plan oriented towards long-term recovery, rather than short-term draconian actions.

**I     INTRODUCTION AND QUALIFICATIONS**

**Q.     PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE  
NUMBER.**

A.     My name is Thomas M. Broderick. My business address is 19820 N. 7<sup>th</sup> Street, Suite  
201, Phoenix, Arizona 85024, and my business phone is 623-445-2420.

**Q.     IN WHAT CAPACITY AND BY WHOM ARE YOU EMPLOYED?**

A.     I am a Manager, Rates and Regulatory Affairs for American Water, Western Region.  
Arizona-American Water Company ("Arizona-American" or "the Company") is a  
wholly-owned subsidiary of American Water.

**Q.     DID YOU SUBMIT DIRECT TESTIMONY IN THIS CASE?**

A.     Yes.

**II     PURPOSE OF REBUTTAL TESTIMONY**

**Q.     WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS  
CASE?**

A.     Please refer to the Executive Summary, which precedes my rebuttal testimony.

**III    RETURN ON EQUITY ("ROE")**

**A     Response to Staff**

**Q.     DOES ARIZONA-AMERICAN ACCEPT STAFF'S RECOMMENDED 10.8  
PERCENT RETURN ON EQUITY?**

A.     Yes, Arizona-American accepts Staff witness Mr. Irvine's recommendation that the  
Commission adopt a 10.8 percent return on equity ("ROE"). I reviewed and considered  
the ROEs approved by the Commission for water and wastewater utilities since 2002, and  
Mr. Reiker's pre-filed testimony, and determined that Staff's recommended ROE is  
reasonable in this case for the Sun City Water district, given Arizona-American's capital

1 structure. Arizona-American reserves the right to challenge the reasonableness of Staff's  
2 recommended ROE in any other pending or future proceeding.

3 As a result of accepting Staff's recommendation, Arizona-American no longer offers its  
4 own independent recommendation in this rate case of 11.3 percent, as originally  
5 sponsored in the direct testimony of Mr. Joel Reiker.

6 **B Response to RUCO**

7 **Q. DO YOU HAVE ANY COMMENTS ON RUCO'S RECOMMENDED ROE?**

8 A. Yes, in reviewing Mr. Rigsby's testimony and analysis I discovered two problems which,  
9 when corrected, result in a cost of equity estimate for Arizona-American that is very  
10 close to Staff's recommendation in this case.

11 **Q. PLEASE EXPLAIN THE FIRST CORRECTION TO MR. RIGSBY'S ANALYSIS.**

12 A. On page 36 of his direct testimony, Mr. Rigsby concludes that, based on the results of his  
13 cost of equity analysis, his best estimate of an appropriate range for a cost of common  
14 equity for Arizona-American is *8.02 percent to 11.48 percent*. Then, rather than adding  
15 the required financial risk adjustment to the **midpoint** (9.75%) of what he concludes to  
16 be the best estimate of an appropriate range of estimates, Mr. Rigsby adds his financial  
17 risk adjustment to something lower than the midpoint of that range (9.52%). There is no  
18 evidence in this proceeding to support adoption of an initial point estimate lower than the  
19 midpoint of what Mr. Rigsby concludes is a reasonable range of estimates.

20 **Q. WHAT IS THE SECOND CORRECTION TO MR. RIGSBY'S ANALYSIS AND**  
21 **RECOMMENDATION?**

22 A. The second correction relates to Mr. Rigsby's financial risk adjustment. Staff, RUCO,  
23 and Arizona-American all agree with the basic financial principle that as the proportion  
24 of debt in a company's capital structure increases, so does its risk and its cost of equity.

1 Mr. Rigsby's 50-basis point adjustment is arbitrary<sup>1</sup> and well below the basis-point  
2 adjustments the Commission has recently approved to compensate Arizona-American's  
3 equity investors for additional leverage risk. Just six months ago, the Commission  
4 approved a 10.7% ROE for Arizona-American's Mohave Water and Wastewater  
5 Districts.<sup>2</sup> This included an adjustment of 100 basis points for Arizona-American's  
6 additional leverage risk.<sup>3</sup>

7 **Q. HOW WOULD YOU REVISE RUCO'S ESTIMATE TO CORRECT FOR MR.**  
8 **RIGSBY'S ARBITRARY RISK ADJUSTMENT?**

9 A. Staff, RUCO and Arizona-American all agree that because of increased financial  
10 leverage, Arizona-American's cost of equity should be higher than that of the respective  
11 sample groups. Because Mr. Rigsby's adjustment for increased financial risk is arbitrary  
12 and inconsistent with Commission precedent, the Commission should rely on the best  
13 information available. In this case, Arizona-American has accepted the 90-basis-point  
14 financial-risk adjustment calculated and proposed by Staff's witness, Mr. Irvine. Staff's  
15 financial risk adjustment is based on current market data, therefore more reflective of the  
16 equity-cost differential between Arizona-American and the respective sample groups.  
17 Furthermore, the 90-basis-point financial-risk is consistent with Commission precedent  
18 set forth in Decision No. 69440. If we substitute Staff's recommended 90-basis-point  
19 financial-risk adjustment for Mr. Rigsby's arbitrary 50-basis-point financial-risk  
20 adjustment, then RUCO's ROE estimate would increase from 10.02% to 10.42%, even  
21 without correcting Mr. Rigby's estimated cost of equity.

22 **Q. WHAT WOULD RUCO'S RECOMMENDED ROE BE AFTER ADDRESSING**  
23 **THESE TWO PROBLEMS?**

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<sup>1</sup> Docket No. W-01303A-06-0491, Tr. at 386:16 - 387:14.

<sup>2</sup> Decision No. 69440, dated May 1, 2007, at 20:7-9.

<sup>3</sup> *Id.* at 18:7-9

1 A. Adding the required financial risk adjustment of 90 basis points to the 9.75 percent  
2 midpoint of Mr. Rigsby's reasonable range produces a 10.65 percent revised ROE  
3 recommendation on behalf of RUCO. This is much closer to the 10.8 percent ROE  
4 recommended by Staff and now accepted by Arizona-American in this case.

5 **IV CAPITAL STRUCTURE**

6 **Q. STAFF RECOMMENDS INCLUSION OF \$24,391,823 OF SHORT-TERM DEBT**  
7 **IN THE TOTAL DEBT STRUCTURE. DO YOU CONTINUE TO DISAGREE?**

8 A. Yes, I disagree. Staff's inclusion of short-term debt in the capital structure for rate  
9 making purposes has the consequence of increasing Arizona-American's debt ratio from  
10 58.6% to 61.5%. The flip side of this is to depress the equity ratio from 41.4% to 38.5%.  
11 This is an important issue for the Commission to continue to get right, as the cost of  
12 equity is roughly double the cost of debt. It is difficult enough that Arizona-American's  
13 actual financial results are creating negative retained earnings, which then get reflected in  
14 the capital structure updates that occur throughout rate cases such as this one - it is not  
15 helpful for Staff to find additional ways to depress Arizona-American's equity ratio.

16 Arizona-American has extensively discussed the reasons why short-term debt should not  
17 be included in its capital structure in recent (some still pending) rate cases.

18 Fundamentally, Arizona-American is only entitled to a return on its rate base. If the  
19 evidence is clear, like it is in this case, that short-term debt does not finance rate base,  
20 then it is inappropriate to include short-term debt which does not finance that rate base in  
21 Arizona-American's capital structure.

22 The Commission agreed that short-term debt should not be included as part of Arizona-  
23 American's capital structure in Decision No. 68310. Subsequent to issuing Decision No.  
24 68310, the Commission reaffirmed its position in two rate orders for Arizona-American  
25 districts. On July 26, 2006, the Commission issued Decision No. 68858 for Arizona-

1 American's Paradise Valley Water District. The Commission did not include short-term  
2 debt as part of Arizona-American's capital structure.<sup>4</sup> Similarly, on May 1, 2007, the  
3 Commission issued Decision No. 69440 for Arizona-American's Mohave Water and  
4 Wastewater Districts. Again, the Commission did not include short-term debt as part of  
5 Arizona-American's capital structure.<sup>5</sup> We see no reason, and Staff provided none, that  
6 would justify any deviation from established Commission precedent.

7 Staff again has not met its burden of showing that its snapshot balance of short-term debt  
8 is representative of Arizona-American's typical short-term debt level. Staff also has not  
9 shown that short-term debt is being used to finance long-term, rate-based assets as  
10 opposed to financing CWIP, which the Commission has historically excluded from rate  
11 base for Arizona-American. Therefore, the Commission should continue to reject the  
12 inclusion of an arbitrary short-term debt balance from Arizona-American's capital  
13 structure.

14 **V COST OF DEBT**

15 **Q. HAS ARIZONA-AMERICAN INCURRED THE ANTICIPATED \$16.45**  
16 **MILLION IN LONG-TERM DEBT APPROVED BY THE COMMISSION?**

17 A. Yes. On October 22, 2007, American Water Capital Corp ("AWCC") closed this debt  
18 and issued notes for signature by Arizona-American for \$16,450,000 in debt maturing  
19 October 2037 at an interest rate of 6.593%. Exhibit TMB-R3 contains this new note.

20 **Q. WHAT COMMISSION DECISIONS AUTHORIZED THIS ISSUANCE?**

21 A. Decision No. 68994 authorized Arizona-American to incur \$165,450,000 in new debt to  
22 pay off two promissory notes and finance two capital projects. To date, Arizona-  
23 American has executed three promissory notes in the amount of \$159,000,000 under this

---

<sup>4</sup> Decision No. 68858, dated July 26, 2006, at 22:16-18.

<sup>5</sup> Decision No. 69440, dated May 1, 2007, at 14:20 – 15:24.

1 financing authority, leaving \$6,450,000 authorized but not incurred. Decision No. 69730  
2 approved the application of Arizona-American to incur \$10 million in long-term debt to  
3 finance the partial repayment of \$25 million in previously approved long-term debt.  
4 Together, the two Decisions authorized Arizona-American to issue up to \$16,450,000 in  
5 additional debt.

6 **Q. DECISION NO. 69730 STATES THAT THE INTEREST RATE IS NOT TO**  
7 **EXCEED 6.5%. WILL ARIZONA-AMERICAN SEEK RECOVERY OF THE**  
8 **SLIGHT EXCESS IN INTEREST EXPENSE IN RATES?**

9 A. No, not unless the Commission authorizes the 0.093 percent excess above the 6.5 percent  
10 limit established in Decision No. 69730. Rebuttal Schedule D-2, page 2 provides an  
11 updated cost of debt for this rate case and the interest rate displayed therein for a  
12 \$10,000,000 portion of the new note has been set at 6.5% for ratemaking purposes in this  
13 case. By way of comparison, Staff witness Mr. Irvine's Supplemental Table 3 had  
14 incorporated this new debt at a forecasted interest rate of 5.95%.

15 **Q. HAS THE FORECASTED \$15 MILLION EQUITY INFUSION OCCURRED?**

16 A. Yes, this equity infusion from American Water to Arizona-American occurred this month  
17 – November 2007.

18 **Q. DID STAFF WITNESS IRVINE'S ERRATA FILED OCTOBER 29, 2007**  
19 **CORRECTLY EXCLUDE THE TOLLESON OBLIGATION BONDS FROM**  
20 **TOTAL DEBT?**

21 A. Yes, Mr. Irvine's Supplemental Direct Schedule SPI-11 excludes that debt. His proposed  
22 treatment now matches that proposed in other pending Arizona-American rate cases.  
23 Although I believe it is now moot, I noticed that Mr. Irvine's Supplemental Direct  
24 Schedule SPI-10 (which is not used in Staff's revenue requirement recommendation)

expresses the Tolleson debt at its gross amount when it should have been expressed at its net amount.

**Q. DO THE COMPANY'S REVISED SCHEDULES REFLECT THE UPDATED COST OF CAPITAL WHICH INCORPORATES ALL OF YOUR REBUTTAL RESPONSES?**

A. Yes. Rebuttal Schedule D-2, page 2 displays a cost of debt of 5.5% under the heading of the projected year ending June 30, 2007. Rebuttal Schedule D-1, page 3 displays the accepted 10.8% ROE and the capital structure of 58.6% debt and 41.4% equity for an overall 7.7% cost of capital under the same heading of the projected year ending June 30, 2007. These amounts flow into the revised revenue requirement.

Please note that in my rejoinder testimony due December 21, 2007, I intend to provide an updated cost of capital using actual financial results through November 2007, as has become the typical practice in recent rate cases. Financial results through November 2007 will reflect inclusion of the equity infusion and overall equity position through that date.

**VI SURCHARGE FOR FIRE FLOW PROJECTS**

**Q. RUCO WITNESS MS. DIAZ CORTEZ RECOMMENDS DENIAL OF THE RECOMMENDED SUN CITY WATER FIRE FLOW IMPROVEMENT PROJECT, YET ACKNOWLEDGES THAT SHE IS UNAWARE OF LOCAL PUBLIC OPINION ON THIS ISSUE. IS THE PUBLIC'S OPINION IMPORTANT?**

A. Yes. The opinions of Sun City Water District's customers about the perceived benefits of the recommended Sun City Water Fire Flow Improvement Project ("Fire Flow Project") are important, in light of the estimated costs of this discretionary project. Arizona-American is currently conducting a survey of Sun City Water District's residential

1 customers and expects to have the results available in mid-December 2007 for all to  
2 review and consider. Exhibit TMB-R1 displays the survey mailed to customers in mid-  
3 November 2007. It is puzzling that RUCO doesn't make more of an effort to speak  
4 directly with residential customers located in districts with rate cases underway. At any  
5 rate, RUCO is interested in this survey and that is positive.

6 Although the survey provides useful input, it should not be an overriding deciding factor  
7 on whether the Fire Flow Project funding mechanism should be approved. Other useful  
8 inputs are the earlier endorsements by the Town of Youngtown and the Task Force  
9 members and the information contained in the Task Force technical study itself.

10 Arizona-American will sponsor two public meetings in Sun City and Youngtown on  
11 December 12, 2007 and will review details of the Fire flow Project with the assembled  
12 local residents.

13 **Q. IS MS. DIAZ CORTEZ ACCURATE WHEN SHE ALLEGES THAT NOT ALL**  
14 **SECTIONS OF THIS DISTRICT PROVIDE THE REQUIRED WATER**  
15 **PRESSURE OF 20 PSI AND THAT THE FIRE FLOW PROJECT REQUIRES**  
16 **MAINS OF AT LEAST 12-INCHES IN DIAMETER?**

17 **A.** No, she is incorrect on both points. The rebuttal testimony of Company witness Mr.  
18 Bradley J. Cole shows, based on recent testing in the Sun City Water district, that the  
19 existing system provides water above the minimum required 20 psi. He also explains that  
20 only 10-inch diameter or smaller mains have been proposed in the Fire Flow Project.

21 **Q. IS MS. DIAZ CORTEZ ENTIRELY ACCURATE WHEN SHE SAYS "NO RATE**  
22 **CASE WOULD BE REQUIRED" (PAGE 4, LINE 17) TO RECOVER THE**  
23 **COSTS OF FIRE FLOW IMPROVEMENTS?**

1 A. No. While it is true that Arizona-American is proposing to implement a series of step  
2 increases in the fire-flow surcharge without the cost and effort of another rate case, the  
3 Commission or any party in the current rate case will be able to review the  
4 reasonableness of fire-flow expenses to-date in the next Sun City Water District rate case.  
5 Please recall from my direct testimony that I proposed a next rate case filing deadline of  
6 May 31, 2011. It now appears, however, that a better filing deadline would be one year  
7 later – May 31, 2012 – in order that the actual final total completed costs of the Sun City  
8 fire flow project can be available in that case.

9 **Q. DOES MS. DIAZ CORTEZ CORRECTLY CHARACTERIZE THE TOWN OF**  
10 **PARADISE VALLEY'S RECENTLY UPDATED POSITION CONCERNING**  
11 **FIRE FLOW PROJECTS IN THAT COMMUNITY (PAGE 6, LINES 6-20)?**

12 A. No. Ms. Diaz Cortez suggests that customer opposition to the design of the fire-flow  
13 related surcharges in Paradise Valley has caused an erosion of public support of fire-flow  
14 projects as represented by the elected Town Council. However, Exhibit TMB-R2, which  
15 is a copy of Resolution No. 1156 dated September 27, 2007 of the Town Council of  
16 Paradise Valley, states "*WHEREAS, the Town of Paradise Valley ("Town") believes that*  
17 *the FFI [Fire Flow Improvements] are vitally important to the public welfare and safety*  
18 *of Town residents and could be constructed more expeditiously if a typical rate base/rate*  
19 *of return model were used instead of using a CIAC method.*"

20 It would appear that support for the fire-flow improvement project in Paradise Valley  
21 remains strong, but support for using the High Block surcharge to fund the improvement  
22 project has eroded. The Town of Paradise Valley believes that a change in the surcharge  
23 mechanism for funding the improvements is needed.

24 When I filed this Sun City Water District rate case on April 2, 2007, I already knew that  
25 the High Block surcharge in Paradise Valley was causing customer complaints and was

1 generally unpopular. I considered that reality in this rate case when I designed the  
2 proposed fire flow surcharge using a typical rate-base/rate-of-return model instead of the  
3 CIAC method utilized in Paradise Valley. Many Arizona-American's customers in  
4 Paradise Valley are also aware of the rate design Arizona-American is proposing in this  
5 case and this probably further emboldened them to seek Resolution 1156 from their  
6 Town Council.

7 **Q. ARE YOU AWARE OF ANY WATER INDUSTRY CONSPIRACY TO EXPEND**  
8 **CAPITAL FUNDS IN ORDER TO MASSIVELY INCREASE RATE BASE IN**  
9 **BUILT-OUT COMMUNITIES TO MAXIMIZE EARNINGS AT RATEPAYER**  
10 **EXPENSE AS ALLEGED BY MS. DIAZ CORTEZ ON PAGE 7, LINES 3 -13 OF**  
11 **HER DIRECT TESTIMONY?**

12 **A.** No! And if there was such a conspiracy, Arizona-American would certainly **not** be a part  
13 of it. To the contrary, Arizona-American has been reducing its capital expense plans and  
14 has increased its support of and reliance upon "CIAC" type hook-up fees over the past  
15 several years. This allows Arizona-American to put its currently required and previously  
16 incurred investments in rates without causing even higher rate increases, yet still permit a  
17 resumption of a reasonable return to our shareholders at some date in the not so distant  
18 future. Unfortunately, in spite of significant efforts, Arizona-American is still  
19 unprofitable and our corporate parent, American Water, carefully scrutinizes each new  
20 investment in this state. In fact, it was this scrutiny that caused Arizona-American, in  
21 part, to begin to recognize and categorize some capital projects as worthwhile but  
22 discretionary in a legal sense and also to rely more heavily upon hook-up fees (e.g.,  
23 Water Facilities Hook-Up Fee for the White Tanks Regional Treatment Plant).

1 **Q. IF THE COMMISSION APPROVES THE SUN CITY FIRE FLOW PROJECT,**  
2 **WILL THAT BE A BLANK CHECK TO ARIZONA-AMERICAN TO RECOVER**  
3 **\$5 MILLION OF INVESTMENT FROM ITS CUSTOMERS?**

4 A. Of course not. We will manage the project carefully and efficiently and allow outside  
5 parties to review our expense records along the way whenever requested. I expect that  
6 both Staff and RUCO will review the expense invoices supporting each step increase in  
7 the surcharge.

8 **Q. DOES ARIZONA-AMERICAN AGREE WITH THE TOWN OF YOUNGTOWN'S**  
9 **STATEMENT THAT ALL CUSTOMERS IN SUN CITY DISTRICT SHOULD**  
10 **HAVE ACCESS TO ADEQUATE FIRE FLOWS?**

11 A. Yes, as a matter of fairness in providing public safety to a defined community.

12 **Q. DOES THE TOWN OF YOUNGTOWN SUPPORT ARIZONA-AMERICAN'S**  
13 **PROPOSED SURCHARGE MECHANISM OR ITS EQUIVALENT?**

14 A. Yes.

15 **Q. IS IT NECESSARY FOR THE COMMISSION TO ORDER ARIZONA-**  
16 **AMERICAN TO MAKE THE RECOMMENDED FIRE-FLOW**  
17 **IMPROVEMENTS FOR ASSURANCE THEY WILL BE CONSTRUCTED?**

18 A. No. It is neither necessary nor helpful for the Commission to order the fire-flow  
19 construction. Certainly if the Commission wishes to authorize Arizona-American to  
20 construct the projects, that is helpful. The reality is that if the Commission approves the  
21 proposed surcharge mechanism or its equivalent in this rate case and later approves cost-  
22 based specific step increases in the surcharge in a timely fashion, then the proposed fire-  
23 flow projects will be constructed.

1 Arizona-American was not ordered to make fire-flow improvements in Paradise Valley,  
2 yet, through September 2007, we have spent \$6.5 million in that community on fire-flow  
3 improvement related projects. Of that amount, \$3.0 million is already in rate base and  
4 \$1.8 million has been collected to-date via the high block surcharge as a contribution.  
5 Arizona-American's engineers are already working with the Town of Paradise Valley on  
6 the next construction phases scheduled for 2008.

7 A Commission order requiring Arizona-American to make fire-flow improvements sets a  
8 bad precedent, as it might encourage local officials in the future to be less focused on  
9 fiscal realities and more focused on just getting the Commission to require its  
10 jurisdictional utilities to fund the construction of discretionary projects. Please recall that  
11 the City of Bullhead's pending request for fire-flow improvements may be next on deck  
12 and Arizona-American's request for Bullhead to co-fund a fire flow task force type study  
13 caused the City of Bullhead to pause somewhat and more fully consider their public  
14 support – a positive step.

15 Clearly, Arizona-American's past support to the Sun City Fire Flow Task Force and its  
16 investments to-date in Paradise Valley are clear and convincing evidence that these  
17 projects will be undertaken if a funding mechanism is approved.

18 **Q. WHAT IS THE TOTAL ESTIMATED COST OF THE FIRE FLOW PROJECT?**

19 **A.** Revised Exhibit TMB-1 displays a revised total estimated cost of nearly **\$4.9 million**,  
20 based on construction costs for the years when we estimate construction will occur. And  
21 so as to not mislead the public, it is important that all parties cease relying upon the  
22 previous cost estimate of \$3.1 million as that was based entirely on 2004 dollars and is  
23 outdated. So, for example, the previous estimate for the cost of the first phase was  
24 \$690,960 in 2004 dollars. However, if our request is approved the first phase expense  
25 will occur in the year 2009 at an expected cost of \$995,763. The estimated cost increase

1 is solely due to inflation from 2004 to 2009. The revenue per 1,000 gallons associated  
2 with the first phase's revised expense is \$0.0347 and is now estimated to start in 2010 – a  
3 figure also displayed in the survey sent to customers to elicit their opinion.

4 **Q. COMMISSION STAFF PROVIDED A COST ESTIMATE OF \$2.7 MILLION.**  
5 **WHAT IS THE SIGNIFICANCE OF THAT?**

6 A. I am not certain and I must leave it to Staff to clarify, but I believe it is another cost  
7 estimate in 2004 dollars. Staff engineer Ms. Hains provided her own estimate of the cost  
8 of fire hydrants as part of Staff's review. Mr. Cole discusses why this is much too low.  
9 If Staff's intention is other than to provide an estimate, I need more information. Is the  
10 cost estimate of \$2,670,602 (page 6, line 6, Igwe direct testimony October 29, 2007)  
11 intended by Staff to indicate an expense ceiling or a presumption of reasonableness?  
12 Staff further characterizes Arizona-American's cost estimate as a worst-case scenario  
13 (page 7, line 14, Igwe direct testimony, October 29, 2007). While I believe that Arizona-  
14 American's cost estimate is not the most conservative estimate, it is definitely not a  
15 worst-case scenario, and so I must disagree with Staff's characterization in this instance.

16 **Q. WHEN WOULD YOU EXPECT THE FIRST STEP OF THE FIRE-FLOW**  
17 **SURCHARGE TO BE IMPLEMENTED?**

18 A. Assuming the first phase is completed before year-end 2009, the Step 1 increase in the  
19 fire-flow surcharge would likely be implemented in early 2010. Revised Exhibit TMB-1  
20 assumes that each of the four major construction phases occurs on a calendar-year basis  
21 with each step increase implemented early the next year. It is important for the parties to  
22 note that each step increase in the surcharge will be based on actual expenses, not  
23 estimates. Therefore, the first phase cost estimate of \$995,763 is merely an estimate.  
24 The Step 1 increase in the surcharge will be based on actual expenses which may be more  
25 or less than this estimate.

1 **Q. DO BOTH STAFF AND RUCO ACCEPT THE PROPOSED RATE RECOVERY**  
2 **OF THE ALREADY INCURRED COSTS OF THE FIRE FLOW TASK FORCE?**

3 A. Yes, both Staff and RUCO accepted line 6 of Arizona-American's income statement  
4 adjustment JMR-10.

5 **Q. DID STAFF MISUNDERSTAND ARIZONA-AMERICAN'S RATE DESIGN FOR**  
6 **THE FIRE FLOW SURCHARGE?**

7 A. I have not provided such a rate design yet for the surcharge, which Staff labeled Fire  
8 Flow Cost Recovery Mechanism ("FCRM") in its direct testimony. Staff infers from the  
9 fire-flow survey that I intend to propose a commodity-only surcharge. However, I prefer  
10 to follow the rate design precedent established in the ACRM surcharge which assigned  
11 50% of the cost to the basic service charge and 50% to the water commodity charge. I  
12 can confirm Staff's assumption that we do not intend to include O&M cost increases in  
13 the FCRM.

14 **Q. CAN ARIZONA-AMERICAN ACCEPT STAFF'S CONDITIONS CONCERNING**  
15 **THE PROCESSING OF THE FCRM STEP INCREASES?**

16 A. Yes. I appreciate Staff's commitment to review each step increase application within 45  
17 days. I assumed there would be an earnings test and we are, of course, willing to provide  
18 schedules equivalent to the ACRM.

19 **VII NEW LOW-INCOME PROGRAM**

20 **Q. HAVE ANY OF THE PARTIES EXPRESSED SUPPORT FOR ARIZONA-**  
21 **AMERICAN SUBMITTING A NEW LOW INCOME PROGRAM IN SUN CITY?**

22 A. Yes. Informally, the Sun City Taxpayers Association expressed support to me. RUCO,  
23 in its direct testimony, expressed enthusiastic support, as long as we meet Mr. Coley's  
24 stated criteria (direct testimony page 31, lines 1 through 9) that a low-income program:

- 25
  - properly targets customers;

- creates material benefits for participants;
- does not overly burden non-participants; and
- is efficiently administered.

RUCO asked Arizona-American to provide more details. This section of my rebuttal testimony is intended to provide more details.

**Q. WHAT IS ARIZONA-AMERICAN'S REQUEST TO THE COMMISSION CONCERNING THIS SUN CITY LOW-INCOME PROGRAM?**

A. I ask the Commission to authorize the low-income program co-sponsored by Ms. Cindy Datig and me in our testimonies. Ms. Datig works for \$1 Energy Fund, Inc. (\$1 Energy), a non-profit organization created to provide utilities assistance to low income households.

I ask the Commission to approve the inclusion of the amount of anticipated low-income discounts into the rate design in this case, with the understanding that Arizona-American would refund at a later time any over-collection of revenues, if program enrollment is less than the target 1,000 residential customers.

Arizona-American is not requesting a *pro-forma* adjustment to increase test-year expenses for the net costs of this program indicated by Ms. Datig in her rebuttal testimony. Rather, the actual program costs would be eligible for inclusion in the test-year expenses in the next Sun City Water rate case. Ms. Datig estimates the on-going annual program cost will be approximately \$30,000.

**Q. WHAT WOULD BE THE TOTAL AMOUNT OF THE PROGRAM DISCOUNT IF 1,000 CUSTOMERS ENROLL?**

A. Based on the rates initially proposed by Arizona-American, the total maximum amount of the discount would be approximately \$50,000 annually for 1,000 customers participating year-round. Hence, the discount to program-cost ratio is at best roughly 5:3. Personally,

1 I would like to see that improve to 4:1 or better. American Water is in discussions with  
2 \$1 Energy, our low-income vendor, concerning lower, possibly nationwide, pricing for  
3 low-income program services.

4 **Q. WOULD THE DISCOUNT BE OVERLY BURDENSOME ON NON-**  
5 **PARTICIPANTS?**

6 A. No. There were 22,878 residential and commercial Sun City Water customers in the test  
7 year (Schedule H-2, page 1). Therefore, the 50% discount on the basic service charge for  
8 1,000 residential customers would cost roughly \$2.29 per year ( $=\$50,000 / (22,878 -$   
9  $1,000)$ ) or \$0.19 per month for non-participants. I recommend recovering the discount  
10 through the commodity charge from non-participants, as a further incentive to conserve  
11 water usage.

12 **Q. WHAT RATE DESIGN DO YOU PROPOSE IN ORDER TO FUND THE LOW-**  
13 **INCOME DISCOUNT?**

14 A. I propose to raise the last-block pricing by \$0.08 per 1,000 gallons for non-participant  
15 residential and all commercial customers. Based on adjusted test year volumes, this  
16 produces approximately \$50,000 revenue to make up for the equivalent loss of basic  
17 service charge revenues for low income customers enrolled in the low income program. I  
18 can provide updated rate design schedules in my rejoinder testimony incorporating this  
19 proposal.

20 **Q. IF FEWER THAN 1,000 CUSTOMERS ARE ENROLLED IN THE PROGRAM,**  
21 **HOW WOULD YOU CALCULATE A REFUND FOR CONSIDERATION IN THE**  
22 **NEXT RATE CASE?**

23 A. I would calculate the shortfall below 1,000 in actual enrollees for each month starting  
24 with the month following implementation of new rates in this case and apply that amount

1 to the \$4.10 discount to determine the amount of discount not actually provided. The  
2 Commission can determine further details of a refund in the next rate case.

3 **Q. IS ARIZONA-AMERICAN WILLING TO ESTABLISH A VOLUNTARY**  
4 **ADDITIONAL PAYMENT FEATURE (E.G., \$1 EXTRA) ON CUSTOMER BILLS**  
5 **AS IS COMMON WITH ELECTRIC UTILITIES AS AN ADDITIONAL**  
6 **CONTRIBUTION TO THE LOW INCOME PROGRAM?**

7 A. Yes, and such contributions would help fund the discount to enrolled customers.  
8 Arizona-American is reviewing the cost and effectiveness of implementing such a  
9 feature.

10 **Q. SHOULD A LOW-INCOME PROGRAM BE EXTENDED TO ARIZONA-**  
11 **AMERICAN'S OTHER DISTRICTS?**

12 A. Yes. I envision a low-income program spanning all of Arizona-American's districts with  
13 a single shared-funding mechanism. Customers in our Mohave, Havasu, and Tubac  
14 districts especially need a low-income program, even more than Sun City. However,  
15 there are probably too few *non*-low-income residents in these communities to fund the  
16 low income program, so I suggest that funds would be generated and shared across  
17 districts. I was informed by the Sun City Taxpayers Association that APS' low income  
18 program provides low-income assistance to qualifying residents of Sun City with funds  
19 generated statewide. It is simply a reality that low-income persons are concentrated in  
20 some communities and not in others.

21 **VIII RATE CASE EXPENSE**

22 **Q. DO YOU HAVE AN UPDATE TO RATE CASE EXPENSE?**

23 A. Yes. Exhibit TMB-R4 displays total rate case expense of \$94,266. The annual  
24 amortization of that expense over three years is \$31,422. My updated estimate

incorporates Staff's recommendation of \$17,500 for the fire-flow survey and eliminates expense for the cost-of-equity witness.

**IX RATE DESIGN**

**Q. DOES ARIZONA-AMERICAN ACCEPT STAFF'S RECOMMENDATION TO REDUCE BREAK-OVER POINTS IN THE RATE DESIGN AS PER SCHEDULE SPI-1.**

A. Yes, this is consistent with reductions in break-over points in other recent cases and is acceptable as long as the rate design produces the recommended revenue requirement.

**Q. DOES ARIZONA-AMERICAN ACCEPT RUCO'S RECOMMENDATION TO GRADUALLY SHIFT MORE REVENUE RECOVERY TO THE COMMODITY CHARGE?**

A. Arizona-American requests that RUCO indicate whether it accepts Staff's proposal to reduce break-even points and, if so, to please update its rate design proposal for Arizona-American to respond to in rejoinder testimony.

**IX ACHIEVEMENT INCENTIVE PAY**

**Q. RUCO RECOMMENDS DISALLOWING 30 PERCENT OF INCENTIVE PAY BASED ON THE PRECEDENT IN THE RECENT PARADISE VALLEY RATE CASE. HOW DO YOU RESPOND?**

A. While I appreciate Mr. Coley accepting 70% of incentive pay (which is based on operational performance), the Commission should reject Mr. Coley's Operating Expense Adjustment #8 contained in his Schedule TJC-8 because the case precedent he cites in the recent Paradise Valley rate case does not apply to Sun City Water. Staff did not make a similar adjustment. Mr. Coley cites from that decision "...shareholders are the primary beneficiaries of *additional profit* the Company achieves as a result of meeting its financial targets..." (Decision No. 68858, page 20). However, unlike Paradise Valley,

1 the Sun City Water District is a former Citizens' property and Arizona-American's  
2 adjusted test-year results reflect a net loss in this district (and as a whole for that matter).  
3 Hence, any increase in net income attributable to employees achieving financial targets  
4 during the test year only helped reduce overall losses in this timeframe, not create profit.  
5 In other words, employees met financial targets established in the incentive plan for  
6 Arizona-American by coming closer to plan, not by achieving positive net income. This  
7 reduces our ongoing equity erosion and helps Arizona-American to achieve the shared  
8 goal of a 40% equity ratio. Therefore, it is appropriate to reward employees for reducing  
9 losses and helping to create a healthier utility, which clearly benefits customers.  
10 American Water has shown remarkable restraint during this period of losses by Arizona-  
11 American. The Commission should support an incentive plan oriented towards long-term  
12 recovery, rather than short-tem draconian actions.

13 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY IN THIS CASE?**

14 **A.** Yes.

EXHIBIT TMB – R1

## Sun City Fire Hydrant Flow Improvement Project

Arizona American Water seeks your input on proposed fire hydrant flow improvements. A summary of the responses we receive will be provided to the Arizona Corporation Commission.

In 2004, the Arizona Corporation Commission directed Arizona American Water to form a community Task Force in its Sun City Water District to determine if water production, storage capacity, water lines, water pressure and fire hydrants were sufficient to provide an adequate level of fire protection.

The Task Force included representatives from the Sun City Taxpayers Association, Recreation Centers of Sun City, Sun City Home Owners Association, Sun City Fire Department, Town of Youngtown, the City of Surprise Fire Department and several local resident and business representatives. Consultants to the Task Force identified the existing fire flows as inadequate to meet the recommendation by local fire departments. In some areas, flows below 500 gallons per minute were identified, which is less than the recommended International Standard of 1,500 gallons per minute for a period of two hours.

The Task Force endorsed a four-year construction plan—costing \$3.1 million in 2004 dollars—which includes water main replacements and new fire hydrants. Those neighborhoods with the lowest fire hydrant flow would be improved first under the plan, with residential customers taking priority over commercial areas. The multi-phase construction plan includes 44,133 feet of new water mains and 195 new fire hydrants:

### Sun City:

21,492 linear feet of water mains and 78 fire hydrants

### Youngtown:

21,391 linear feet of water mains and 117 fire hydrants

### Peoria:

1,250 linear feet of water mains



## How this affects you...

The table below provides a yearly estimate, starting in 2010, of how the cost of improving fire hydrant flows, if approved, is expected to impact your monthly water bill:

Year	Increase In Monthly Water Bill
2010	3.5 cents per every 1,000 gallons
2011	7.4 cents per every 1,000 gallons
2012	11.4 cents per every 1,000 gallons
2013 and beyond	17.4 cents per every 1,000 gallons

The average residential customer in the Sun City water district uses 8,269 gallons of water per month, which presently costs \$13.91. Please review your current water bill to determine your water usage. If you need further assistance, please call 1-800-383-0834 to speak with one of our customer service representatives. If you would like more information concerning the fire flow project details or costs, please contact Todd Walker, Community Relations Manager, 623-815-3112, or via email at [todd.walker@amwater.com](mailto:todd.walker@amwater.com).

Arizona American Water currently has a rate case pending before the Arizona Corporation Commission to increase water rates in its Sun City Water District and to also fund fire hydrant flow improvements through a surcharge.

Contact your property insurance agent if you have questions about how improved fire safety may impact your future homeowner's insurance rates.

### Excerpt from Arizona Department of Insurance Website:

#### What affects home insurance prices?

**Local Fire Protection:** The number of fire hydrants and fire departments and the availability of water are just some factors which determine your area's fire protection class.

Arizona Department of Insurance, 602-364-2499 or [www.id.state.az.us](http://www.id.state.az.us)

## MAIL-IN OPINION SURVEY

### Please Check One:

- ☐ Yes, I support improving fire hydrant flows in Sun City Water District.
- ☐ No, I do not support improving fire hydrant flows.

### Please Check One:

- ☐ Yes, I am willing to pay in my water bill for the cost of improving fire hydrant flows in Sun City Water district so long as the Arizona Corporation Commission finds the costs reasonable.
- ☐ No, I am not willing/able to pay for the proposed fire hydrant flow improvements in my water bill.

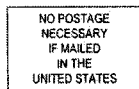
Thank you for your participation in this survey. The results of this survey will be available to you, our customer. The Arizona Corporation Commission rate case hearing is currently scheduled for 10 a.m. on January 7, 2008. If the fire hydrant flow improvement project is approved, construction is likely to begin in 2009. **Responses must be postmarked by December 1, 2007.**

Name: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_

Email: \_\_\_\_\_

[illegible]

\_\_\_\_\_



on proposed  
fire hydrant  
flow improvements

EXHIBIT TMB – R2



ORIGINAL

#W01303A-05-0405 28  
#W01303A-05-0910

**TOWN OF  
PARADISE VALLEY**

**OFFICE OF TOWN ATTORNEY**

6401 EAST LINCOLN DRIVE  
TOWN OF PARADISE VALLEY, ARIZONA 85253-4399

**PHONE: (480) 348-3691**

**FAX: (480) 596-3790**

**TDD: (480) 483-1811**

September 28, 2007

Arizona Corporation Commission  
**DOCKETED**

**OCT -1 2007**

Commissioner Mike Gleason, Chairman  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007-2927

DOCKETED BY

nr

AZ CORP COMMISSION  
DOCKET CONTROL

2001 OCT -1 A 8:47

RECEIVED

**Re: Town of Paradise Valley Resolution No. 1156 re Reconsideration of Arizona Corporation Commission Decision No. 68858**

Dear Chairman Gleason:

In response to concerns raised by a number of Town of Paradise Valley residents and businesses, and in response to requests by some of the Arizona Corporation Commissioners, the Town of Paradise Valley adopted a resolution at its meeting last night to clarify its position on whether Commission Decision No. 68858 should be reconsidered and what the Town believes should be the scope of the issues if such a reconsideration were to occur. A certified copy of the Resolution (# 1156) is attached for your review. I have also attached a copy of the Action Report to the Council that accompanied the Resolution that provides a little more detail as to the reasoning behind the Council's desire to see Commission Decision No. 68858 considered.

As you can gather from the Resolution and the Action Report, the Council believes that the use of surcharges (or tiered rate systems) to encourage conservation is an important goal that should be retained in any new rate structure that may be considered by the Commission. The Council has been advised that a modification of Decision No. 68858 from the use of a contribution in aid of construction (CIAC) rate methodology to a more typical rate base/rate of return method can include a tiered rate structure that incorporates many of the same conservation incentives as the surcharges implemented in Decision No. 68858. Although the rate base/rate of return model may lower the current water bills of all users in the Arizona American Water Company's (the "Company") Paradise Valley Water District ("District") and allow for some return by the Company, it will continue a conservation incentive that will last longer than would be the case with the CIAC method.

One matter that the Council also found important to note is that the use of the rate base/rate of return method will permit the fire flow improvements to be built sooner and thus promote the public safety and welfare for the residents in the District. Should the Commission re-open Decision No. 68858, I have also been instructed to file a Motion to Intervene so that the Town's position on any rate model considered during the re-opened case can be further clarified as may be needed.

Chairman Gleason  
September 28, 2007  
Page 2

Additionally, the Town's Water Committee will be working with the Company to develop incentives for Town properties that become part of a water conservation landscape conversion program. The Town would like to explore such a program for future rate cases, but believes that it is a plan that needs more discussion and planning than is feasible under what it believes should be the limited scope of the reconsideration requested in the Resolution.

Thank you in advance for your interest in the Town's input into the reconsideration of Decision No. 68858.

Sincerely,



Andrew M. Miller  
Town Attorney  
AMM/dlw  
cc:

Commissioner Gary Pierce  
Commissioner William A. Mundell  
Commissioner Hatch-Miller  
Commissioner Kristin Mayes  
Tom Martinsen, Town Manager  
Docket Control  
Dean Miller

When recorded, return to:

Paradise Valley Town Attorney  
6401 East Lincoln Drive  
Paradise Valley, Arizona 85253

**RESOLUTION NO. 1156  
A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF  
PARADISE VALLEY REQUESTING THE ARIZONA  
CORPORATION COMMISSION TO RE-OPEN DECISION NO. 68858  
ARIZONA AMERICAN WATER COMPANY, PARADISE VALLEY  
WATER DISTRICT, DOCKET NOS. W-01303A-05-0405 AND W-01303A-05-0910  
PURSUANT TO ARIZONA REVISED STATUTE §40-252.**

BE IT RESOLVED:

WHEREAS, on July 28, 2006, the Arizona Corporation Commission ("ACC") issued Decision No. 68858 in the Matter of the Application of Arizona American Water Company, an Arizona Corporation, For a Determination of the Current Fair Value of Its Utility Plant and Property, and For Increases in Its Rates and Charges Based Thereon for Utility Service by Its Paradise Valley Water District;

WHEREAS, pursuant to Decision No. 68858, the ACC authorized the Arizona American Water Company ("Company") to recover the construction costs associated with fire flow improvements ("FFI") via a Public Safety Fire Flow Surcharge and a High Block Usage Surcharge (collectively the "Surcharges"), with such amounts to be accounted for as Contributions in Aid of Construction ("CIAC").

WHEREAS, the Town of Paradise Valley ("Town") believes that the FFI are vitally important to the public welfare and safety of Town residents and could be constructed more expeditiously if a typical rate base/rate of return model were used instead of using a CIAC method;

WHEREAS, the Town believes that one of the ACC's goals in implementing the Surcharges was to encourage water conservation by making the high volume users pay proportionately more for higher monthly water usage amounts;

WHEREAS, the Town agrees that conservation of water resources is desirable and that the use of Surcharges to encourage conservation should be maintained;

WHEREAS, the Town is concerned that recovery of the costs of the FFI via the Surcharges has had the unintended consequence of causing a dramatic rate increase for some residential and commercial customers;


WHEREAS, the Town believes that a modification of Decision No. 68858 for the limited purpose of changing to a typical rate-base/rate of return model instead of a CIAC model and retaining the Surcharges with only a reduction in their amounts based on the use of a rate-base/rate of return model, will not only provide for more expeditious construction of the FFI public safety improvements but will also continue to encourage conservation, including conservation by future customers of the Company;

WHEREAS, the Town Council of Paradise Valley deems it necessary and in the best interest of the residents and businesses of the Town of Paradise Valley to request that the ACC re-open Decision No.68858 pursuant to A.R.S. §40-252 on a limited basis to review and revise the mechanism for recovery of costs associated with the necessary fire flow upgrades in rates.

IT IS THEREFORE RESOLVED THAT the Town of Paradise Valley respectfully requests the ACC to re-open Decision No. 68858 for the limited purpose of reviewing whether a more typical rate-base/rate of return rate model will further the beneficial goals of expeditiously providing needed fire flow improvements, encouraging

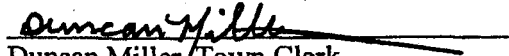
water conservation, and fairly distributing the costs of such improvements among the current and future Paradise Valley Water District customers.

PASSED AND ADOPTED by the Town Council this 27th day of September, 2007.



Ed Winkler, Mayor

ATTEST:

  
Duncan Miller, Town Clerk

APPROVED AS TO FORM



Andrew M. Miller, Town Attorney

#### CERTIFICATION

I, Duncan Miller, Town Clerk hereby certify that the foregoing is a full, true and correct copy of Resolution Number 1156 duly and regularly passed and adopted by vote of the Town Council of Paradise Valley at a meeting thereof duly called and held on the 27th day of September 2007. That said Resolution appears in the minutes of said meeting, and that the same has not been rescinded or modified and is now in full force and effect.

I further certify that said municipal corporation is duly organized and existing, and has the power to take the action called for by the foregoing Resolution.

TOWN OF

  
Duncan Miller, Town Clerk

INCORPORATED 1961  
PARADISE VALLEY, ARIZONA

## TOWN OF PARADISE VALLEY TOWN COUNCIL ACTION REPORT

<b>TO:</b>	Mayor and Town Council
<b>FROM:</b>	Andrew M. Miller, Town Attorney
<b>SUBJECT:</b>	Resolution No. 1156 Requesting the Arizona Corporation Commission to Re-Open Decision No. 68858
<b>DATE:</b>	September 27, 2007

### RECOMMENDATION:

It is recommended that the Town Council adopt Resolution No. 1156 requesting that the Arizona Corporation Commission Reopen Decision No. 68858.

### DISCUSSION:

The Town of Paradise Valley (Town) Water Committee, over the course of many meetings, had encouraged the Arizona American Water Company (Arizona American) to make Fire Flow Improvements (FFI) in its Paradise Valley Water District (District). Arizona American met with user groups in the District and subsequently requested a rate increase request to the Arizona Corporation Commission (ACC) in 2005-2006, at that time known as Docket No. W-01303A-505-0405 (the "Rate Case"). The ACC staff requested that the Town file an amicus brief in the Rate Case addressing issues related to the Gift Clause in the Arizona Constitution and other matters; and the Town subsequently approved Resolution Number 1125 authorizing the Town Attorney to file such a brief.

On July 28, 2006, the ACC issued Decision No. 68858 in the Rate Case matter, in which the ACC authorized Arizona American to recover the construction costs associated with FFI via a Public Safety Fire Flow Surcharge and a High Block Usage Surcharge (collectively the "Surcharges"), with such amounts to be accounted for as Contributions in Aid of Construction (CIAC). The Town was not aware that the CIAC model was being recommended as the method of paying for the FFI, nor that the use of the CIAC model would lengthen the amount of time over which the FFI would be constructed.

Because the construction of the FFI are vitally important to the safety of Town residents and could be constructed more expeditiously if a typical rate base/rate of return model were used in the Rate Case instead of using a CIAC method, the Town should request that the ACC reopen the Rate Case for the limited purpose of amending Decision No. 68858, so that a typical rate-base/rate of return model be instituted instead of a CIAC model. Using such a model would provide for more expeditious construction of the FFI while still retaining the conservation goals that were part of the reason for utilizing the Surcharges in Decision No. 68858.

The Town desires to encourage conservation, including conservation by future customers of the Company. However, the Town has received a number of complaints from both residential and commercial customers in the PV District that recovery of the costs of the FFI via the Surcharges has had the unintended consequence of causing an unpredicted dramatic rate increase for some residential and commercial customers. Many of the complainants have suggested that the Surcharges should be spread out over time so that future High Block Users (meaning those who have projects in the planning stages at this time) would be subject to the Surcharges and have the same conservation incentive as current High Block Users.

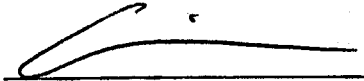
It would appear that a modification of Decision No. 68858 for the limited purpose of changing to a typical rate-base/rate of return model instead of a CIAC model would retain (and expand over a longer time period) the conservation goal of the Surcharges and provide for more timely construction of the FFI. Resolution No. 1156 requests that the ACC make this limited change to Decision No. 68858 and determine whether it will further the mutually beneficial goals noted above. It is respectfully recommended that the Town Council adopt Resolution No. 1156.

**FISCAL IMPACT**

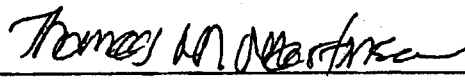
None.

**COMMUNITY IMPACT:**

Fire Flow Improvements in Arizona American's PV District may be built sooner.



Andrew M. Miller, Town Attorney



Thomas M. Martinsen, Town Manager

Attachment: Resolution No. 1156

## REVISED EXHIBIT TMB -1

**SUN CITY DISTRICT FIRE FLOW IMPROVEMENTS**  
**PHASING AS PER DIRECT TESTIMONY OF BRIAN K. BIESEMEYER**

**REVISED EXHBIT TMB-1**  
 Page 1 of 1

**TRANSLATION OF 2004 CAPITAL DOLLARS TO YEAR PROJECT IS CONSTRUCTED:**  
 10% ANNUAL INFLATION IN 2005 AND 2006 AND 6% ANNUAL INFLATION THEREAFTER

		<u>2004 \$'S</u>	<u>INFLATION</u>	<u>FUTURE \$'S</u>
YEAR 0 AND 1=	2009	<b>\$690,960</b>	1.44112936	<b>\$995,763</b>
YEAR 2=	2010	<b>\$699,568</b>	1.527597122	<b>\$1,068,658</b>
YEAR 3=	2011	<b>\$702,934</b>	1.619252949	<b>\$1,138,228</b>
YEAR 4=	2012	<b>\$986,640</b>	1.716408126	<b>\$1,693,477</b>
TOTAL		<b>\$3,080,102</b>		<b>\$4,896,126</b>

**FORECASTED REVENUE REQUIREMENT USING FUTURE \$'S:**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
ORIGINAL COST RATE BASE	<b>\$995,763</b>	<b>\$1,068,658</b>	<b>\$1,138,228</b>	<b>\$1,693,477</b>
DEPRECIATION RATE	3.33%	3.33%	3.33%	3.33%
DEPRECIATION EXPENSE	\$33,159	\$35,586	\$37,903	\$56,393
DEPRECIATION EXPENSE NET OF TAX	\$20,360	\$21,850	\$23,272	\$34,625
RATE OF RETURN	0.0798	0.0798	0.0798	0.0798
REQUIRED OPERATING INCOME	\$79,462	\$85,279	\$90,831	\$135,139
OPERATING INCOME DEFICIENCY	\$99,821	\$107,129	\$114,103	\$169,765
GROSS REVENUE CONVERSION	1.6286	1.6286	1.6286	1.6286
REVENUE DEFICIENCY	<b>\$162,569</b>	<b>\$174,470</b>	<b>\$185,828</b>	<b>\$276,479</b>
ACCUMULATED REVENUE DEFICIENCY	<b>\$162,569</b>	<b>\$337,039</b>	<b>\$522,868</b>	<b>\$799,346</b>
TEST YEAR CONSUMPTION SCHEDULE E-7	<b>4,688,598</b>	<b>4,688,598</b>	<b>4,688,598</b>	<b>4,688,598</b>
ADJUSTED TEST YEAR EXISTING REVENUES	<b>\$7,688,479</b>	<b>\$7,688,479</b>	<b>\$7,688,479</b>	<b>\$7,688,479</b>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
FORECAST OF INCREASE IN PUBLIC SAFETY S	2.1%	2.3%	2.4%	3.6%
REVENUE PER 1000 GALLONS	<b>\$ 0.0347</b>	<b>\$ 0.0719</b>	<b>\$ 0.1115</b>	<b>\$ 0.1705</b>

## EXHIBIT TMB – R3

PROMISSORY NOTE  
FOR LONG-TERM BORROWINGS  
6.593% Maturity - October 15, 2037

**\$16,450,000**

**October 22, 2007**

FOR VALUE RECEIVED, **Arizona-American Water Company**, an **Arizona** corporation (herein "Borrower") hereby promises to pay to the order of **American Water Capital Corp.**, a Delaware corporation ("Lender"), in same day funds at its offices at 1025 Laurel Oak Road, Voorhees, NJ 08043 or such other place as Lender may from time to time designate, the principal sum of **Sixteen Million Four Hundred Fifty Thousand dollars (\$16,450,000)**, together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of Lender and Borrower.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

**Arizona-American Water Company**

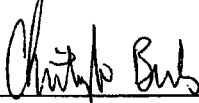
By:   
\_\_\_\_\_  
Christopher Buls  
VP of Finance

EXHIBIT TMB – R4

SUN CITY WATER  
CASE NO. W-01303A-07-0209

EXHIBIT TMB-R4

RATE CASE EXPENSE UPDATE

<u>Rate Case Expense:</u>	<u>Actual through 9/24/2007</u>	<u>Additional Expense</u>	<u>Total Estimated Expense</u>
External Counsel	\$8,550.00	\$40,790.00	\$49,340.00
Dollar Energy Fund			
Low Income Program Testimony, External Witness	\$1,650.00	\$10,000.00	\$11,650.00
Copying Services, Public Meetings, Notices, Surveys			
Fedex Kinko's	\$1,392.07	\$2,000.00	\$3,392.07
Arizona Republic Classified	\$33.03		\$33.03
Mesa Tribune	\$170.00		\$170.00
Office Max	\$1,367.34		\$1,367.34
Moody's Quick Delivery	\$24.78	\$25.00	\$49.78
Direct Impact (Postage, Copying Notice)	\$8,298.72		\$8,298.72
Additional Fire Flow & Ratemaking Survey		\$17,500.00	\$17,500.00
Public Participation Meetings	\$0.00	\$2,000.00	\$2,000.00
Miscellaneous Other	\$464.73		\$464.73
TOTAL	<u>\$21,950.67</u>	<u>\$72,315.00</u>	<u>\$94,265.67</u>

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON, Chairman  
JEFF HATCH-MILLER  
WILLIAM A. MUNDELL  
KRISTIN K. MAYES  
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON  
FOR UTILITY SERVICE BY ITS SUN CITY  
WATER DISTRICT

DOCKET NO. W-01303A-07-0209

**REBUTTAL TESTIMONY  
OF  
LINDA J. GUTOWSKI  
ON BEHALF OF  
ARIZONA-AMERICAN WATER COMPANY  
NOVEMBER 30, 2007**

**REBUTTAL TESTIMONY  
OF  
LINDA J. GUTOWSKI  
ON BEHALF OF  
ARIZONA-AMERICAN WATER COMPANY  
NOVEMBER 30, 2007**

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Exhibit LJC – R1

Sun City Water Schedules Rebuttal

**EXECUTIVE SUMMARY**

In her rebuttal testimony Linda J. Gutowski testifies as follows:

Ms. Gutowski generally addresses Staff's and RUCO's adjustments to rate base and operating expense.

The parties' rate base positions and adjusted operating income positions are summarized in the following table:

	<b>Rate Base</b>	<b>Adjusted Operating Income</b>
Arizona-American Water Direct	<b>\$25,961,898</b>	<b>\$693,411</b>
Staff Direct	<b>\$25,306,214</b>	<b>\$752,577</b>
RUCO Direct	<b>\$25,340,359</b>	<b>(\$55,524)</b>
Arizona-American Water Rebuttal	<b>\$24,960,997</b>	<b>\$702,920</b>

Arizona-American accepts Staff's Rate Base Adjustments Nos. 1 through 5 to utility plant. Arizona-American disagrees with Staff Adjustment No. 6 – reducing accumulated depreciation by \$446,136.

Staff's method of computing accumulated depreciation is inappropriate.

Arizona-American accepts the portion of RUCO's adjustment No. 1 that is consistent with Staff's adjustments Nos. 1 through 3 and RUCO's adjustment No. 3. Arizona-American rejects the remainder of RUCO adjustments No. 1 and No. 4. RUCO left adjustment No. 2 "intentionally blank" so Arizona-American has no comment to adjustment No. 2 at this time.

RUCO increased operating revenue by \$1,844 for a customer-annualization adjustment. Arizona-American did not make a customer-annualization adjustment because Sun City experiences virtually no growth. However, if the Commission believes Arizona-American should have made a customer-annualization adjustment, it must also allow Arizona-American to recover additional expenses attributable to serving these annualized customers.

RUCO disallowed the promotions during the test year for four employees resulting in a decrease in expense of \$1,047. There is no reason not to use the hourly rates at the end of the test year for these four employees, because the salary increase occurred during the test year. RUCO's downward adjustment to labor expense also reduced group insurance by \$7, miscellaneous expense for 401k by \$41, and general taxes for payroll taxes by \$105 for a total additional decrease in expenses of \$153. These are also inappropriate.

RUCO removed the Eastern Division Allocated Labor Expenses because it mistakenly believes that the Eastern Division was abolished. RUCO also incorrectly reduced the associated group insurance by \$1,010, pensions by \$105, miscellaneous expense for 401k expense by \$58, and general taxes for payroll taxes by \$247 for an additional adjustment by \$1,420.

RUCO also inappropriately reduced adjusted fuel-and-power expense, based on the erroneous belief that the Eastern Division had been abolished.

1  
2 Based on the erroneous belief that the Eastern Division had been abolished RUCO also increased  
3 Insurance Other by \$634, increased Customer Accounting by \$12, decreased Rent Expense by  
4 \$12, decreased General Office Expense by \$5,496, decreased Miscellaneous by \$3,548,  
5 decreased Maintenance Expense by \$298, and decreased Depreciation and Amortization Expense  
6 by \$770.

7  
8 RUCO also disallowed \$334, the amount Arizona-American paid for a late-payment fee on an  
9 electric bill. Arizona-American accepts this adjustment.

10  
11 RUCO also removes the entire amount of the waste-disposal expense of \$4,270. Arizona-  
12 American accepts this adjustment.

13  
14 RUCO reduced Arizona-American's Management Fees by \$32,230. The amount constitutes  
15 30% of the AIP award allocated to the Sun City Water District, which represents the amount of  
16 bonus related to Arizona-American's financial performance. Arizona-American does not accept  
17 this adjustment, as discussed in Mr. Broderick's rebuttal testimony.

18  
19 Arizona-American does not accept Staff's reduction of \$25,508 in regulatory expense. Arizona-  
20 American already voluntarily reduced Rate Case Expense from \$150,000 to \$94,266 as shown in  
21 Mr. Broderick's Rebuttal Exhibit TMB-R4, and therefore reduced the proposed three-year  
22 amortization from \$50,000 to \$31,422. Arizona-American stands by its revised Rate Case  
23 Expense of a three-year amortization of \$94,266, or an annualized cost of \$31,422.

24  
25 Arizona-American accepts RUCO's adjustment No. 9 - the reduction of \$18,578 in rate-case  
26 expense. Although RUCO's reasons were different than Arizona-American's, the end result is  
27 the same amount of rate case expense.

28  
29 Arizona-American does not accept any of RUCO's proposed additional disallowances for  
30 miscellaneous expense. Arizona-American has voluntarily reduced its miscellaneous expense  
31 line item by \$10,646. We removed expenses for charities, donations, United Way support,  
32 community relations, service awards, etc. Arizona-American cannot accept RUCO's Adjustment  
33 No. 7 to further remove all meals we provide employees who work in the field when they are  
34 called out for overtime work, meals for training, meals for group meetings, meals for employees  
35 who have to travel for work, etc. Further, it's simply inappropriate for RUCO to disallow meal  
36 expenditures for employees who are required to travel for work reasons. Most companies and all  
37 government employees are entitled to meal allowances when traveling for work.

38  
39 Although Arizona-American had the same plant reductions as Staff, our annual depreciation  
40 expense reduction is \$25,560. The main difference in annual depreciation expense between Staff  
41 and Arizona-American is in general plant. Arizona-American's schedule reflects more  
42 accurately the latest approved depreciation rates from the Commission, based on the splits  
43 among the Divisions and Districts.

44  
45 Arizona-American does not accept RUCO's adjustment to depreciation expense. The difference  
46 between Arizona-American and RUCO is (\$12,265), and the majority of the difference can be  
47 attributed to RUCO's double-allocation of the amortization of the Y2K costs.

48  
49 Arizona-American rejects RUCO's disallowance of the Eastern Division UPIS which leads to a  
50 reduction in depreciation expense of (\$919).  
51

1 In account 307000, RUCO did not include its Rate Base adjustment No. 3 which reduces its plant  
2 balance by an additional (\$19,085) and would further reduce its depreciation expense by an  
3 additional (\$481).  
4

5 RUCO's Schedule TJC-15 has a strange difference between column (A) and column (C) with no  
6 adjustment in column (B) for accounts 341100 and 346300 – one a reduction of (\$399) in plant  
7 and one an increase of \$399 in plant with no support. This resulted in a decrease in depreciation  
8 expense of (\$100) and an increase in depreciation expense of \$20, both of which are wrong.  
9

10 Finally, it would appear RUCO reduced depreciation expense for the amortization of the  
11 Youngtown Plant twice, once on line 62 of Schedule TJC-15 and again 7 lines later on the same  
12 schedule.  
13

14 The difference in general tax expense between Arizona-American and Staff is caused by the  
15 calculation of property taxes. Staff does its property tax calculation in two parts, Present Rate  
16 pro forma and Proposed Rate pro forma.  
17

18 RUCO still supports its old standby calculation for property-tax expense, which has been  
19 regularly rejected by the Commission.  
20

21 Arizona-American is requesting an increase in transmission and distribution maintenance  
22 expense in this phase of the case. During the test year Arizona American deferred \$122,498 of  
23 new tank painting expenses. Arizona-American is requesting a three-year amortization period  
24 for the recovery of these deferred charges which results in annual expense of \$40,833.

**I     INTRODUCTION AND QUALIFICATIONS**

**Q.     PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE  
NUMBER.**

A.     My name is Linda J. Gutowski. My business address is 19820 N. 7<sup>th</sup> Street, Suite 201,  
Phoenix, Arizona 85024, and my business phone is 623-445-2496.

**Q.     ARE YOU THE SAME LINDA J. GUTOWSKI WHO PREVIOUSLY  
SUBMITTED TESTIMONY IN THIS CASE?**

A.     Yes.

**II     PURPOSE OF TESTIMONY**

**Q.     WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

A.     Please refer to the Executive Summary, which precedes my rebuttal testimony.

In addition, I sponsor Exhibit LJG – R1 which comprise the rebuttal Schedules A-1, B-2,  
C-2 and D-1 for Sun City Water District.

**III    RATE BASE**

**Q.     PLEASE SUMMARIZE THE PARTIES' RECOMMENDATIONS CONCERNING  
RATE BASE IN THIS CASE?**

A.     The parties' rate base positions are summarized in the following table:

	<b>Rate Base</b>
Arizona-American Water Direct	<b>\$25,961,898</b>
Staff Direct	<b>\$25,306,214</b>
RUCO Direct	<b>\$25,340,359</b>
Arizona-American Water Rebuttal	<b>\$24,960,997</b>

**Q.     DO YOU ACCEPT STAFF'S RATE BASE ADJUSTMENTS?**

A.     Arizona-American accepts Staff's Rate Base Adjustments Nos. 1 through 5 to Utility  
Plant. Arizona-American disagrees with Staff Adjustment No. 6 – reducing accumulated

1 depreciation by \$446,136. Staff's method of computing Accumulated Depreciation is  
2 inappropriate.

3 **Q. WHY IS STAFF'S METHOD OF COMPUTING ACCUMULATED**  
4 **DEPRECIATION INAPPROPRIATE?**

5 A. When the Commission **orders** some plant to be disallowed, then it is removed **as of the**  
6 **date of the order**, and accumulated depreciation will be recomputed from that point in  
7 time. The Decision in the last Sun City Water case was dated July, 2004. That is when  
8 the Commission ordered that certain items of plant be removed as not used and useful.  
9 Therefore, the plant items should have been removed as of July 2004, and accumulated  
10 depreciation would be recomputed as of then, not as of December 2001, the end of the  
11 test year in the case. Arizona-American's computation of the decrease to Accumulated  
12 Depreciation due to Staff's Rate Base Adjustments Nos. 1 through 5 to Utility Plant is  
13 (\$100,918) which is a difference from Staff's computation by (\$345,218).

14 **Q. DO YOU ACCEPT RUCO'S RATE BASE ADJUSTMENT?**

15 A. Arizona-American accepts the portion of RUCO's adjustment No. 1 that is consistent  
16 with Staff's adjustments Nos. 1 through 3 and RUCO's adjustment No. 3. Arizona-  
17 American rejects the remainder of RUCO adjustments No. 1 and No. 4. RUCO left  
18 adjustment No. 2 "intentionally blank" so Arizona-American has no comment to  
19 adjustment No. 2 at this time.

20 **Q. PLEASE EXPLAIN RUCO'S RATE BASE ADJUSTMENT NO. 1.**

21 A. RUCO's Rate Base Adjustment No. 1 includes four separate and distinct "adjustments".  
22 Arizona-American accepts the first "adjustment" because it is consistent with Staff  
23 Adjustments Nos. 1 through 3.

1 Arizona-American does not accept the amount in the second "adjustment". The second  
2 "adjustment" removes \$228,968 in Plant account 303300 without removing the credits of  
3 (\$80,838) in the same account. Had RUCO removed the credits, the net amount of the  
4 adjustment should be (\$148,130), the amount identical to Staff's Rate Base Adjustment  
5 No. 4.

6 Arizona-American does not accept the amount in the third "adjustment" for two reasons.  
7 First, RUCO inappropriately allocated the office renovation cost by using the average of  
8 the four factors (15.269%). The cost of office renovation is recorded as an increase in  
9 common plant. When allocating common plant to an operating district's rate base, the  
10 appropriate four-factor allocation is percentage of metered customers, 13.204% rather  
11 than an average of the four-factors. When applying the correct allocation ratio, the  
12 adjustment should be (\$187,155). This amount is identical to Staff Rate Base Adjustment  
13 No. 5. Second, the office renovation cost is only \$220,883, not the whole \$220,892 in the  
14 account.

15 Arizona-American rejects the fourth "adjustment". Arizona-American creates  
16 "divisions" for operating purposes only. Which "division" a particular plant is located in  
17 is irrelevant for rate-base allocation purposes, because all plant in Arizona-American's  
18 operating "divisions" is being treated as corporate plant, and allocated to each district's  
19 rate base using the four-factor allocation. RUCO's disallowance of Eastern Division's  
20 Plant is based on the argument that the Eastern Division plant was moved from Eastern  
21 Division to the Mohave business unit *after the test year*. This is also inconsistent with  
22 RUCO's oft-stated arguments against post-test-year adjustments.

23 **Q, RUCO ADDED AN UNRECONCILED AMOUNT BACK TO UTILITY PLANT**  
24 **IN MR. COLEY'S TESTIMONY, PAGE 12, LINE 10. DO YOU ACCEPT THIS**  
25 **ADDITION?**

1 A. Arizona-American cannot accept this addition even though it has the effect of increasing  
2 Sun City Water District's rate base. Arizona-American has no idea how to account for  
3 this addition under any acceptable accounting principles.

4 **Q. WHY DO YOU DISAGREE WITH RUCO RATE BASE ADJUSTMENT NO. 4?**

5 A. RUCO adjustment No. 4 increases Arizona-American's working capital by \$35,222.  
6 Arizona-American did not request an allowance for cash working capital in its  
7 application for several reasons. To properly calculate cash working capital, a  
8 comprehensive lead/lag study is required. The time and expense associated with  
9 performing a comprehensive lead/lag study was a significant factor in Arizona-  
10 American's decision to forego requesting an allowance for cash working capital.  
11 Workforce limitations were another factor. Finally, I am not aware of any requirement  
12 for a cash working-capital calculation.

13 Overall, the cost of a complete study outweighed any benefit. A lead/lag study is a  
14 sophisticated analysis of the cash flows of an organization and the revenue lag alone  
15 requires a determination of the service period for each billing cycle as well as the average  
16 length of time over which service is provided within the billing cycles. In the case of  
17 expenses, typically every invoice is analyzed for the payment lags from the time that the  
18 product is received until payment is rendered. Mr. Coley did not perform these detailed  
19 analyses. Rather, he just used the analysis approved by the Commission in Arizona-  
20 American's recent Mohave rate case (Docket No. WS-01303-06-0014) in this case,  
21 because, according to Mr. Coley, 15 of the 17 expense categories "should have very  
22 minimal to no variance across AZ-AM districts in Arizona". RUCO provides no  
23 evidence or study to support Mr. Coley's assumption.

24 The Commission should reject RUCO's haphazard methodology.

**IV     OPERATING REVENUES**

**Q.     DID ANY PARTY MAKE ANY ADJUSTMENTS TO ARIZONA-AMERICAN'S  
OPERATING REVENUE?**

A.     Yes. RUCO increased operating revenue by \$1,844 for a customer-annualization adjustment.

**Q.     DO YOU AGREE WITH RUCO'S ADJUSTMENT TO REVENUE?**

A.     No. Arizona-American did not make a customer-annualization adjustment because Sun City experiences virtually no growth. The Sun City Water District added 30 new customers in 2006 and 9 customers from Jan. 2007 to August 2007. Arizona-American does not see the need to annualize such a small increase in a built-out district. However, if the Commission believes Arizona-American should have made a customer-annualization adjustment, it must also allow Arizona-American to recover additional expenses attributable to serving these annualized customers.

**Q.     HOW MUCH ADDITIONAL EXPENSES ARE ATTRIBUTABLE TO THE  
CUSTOMER ANNUALIZATION ADJUSTMENT?**

A.     Arizona-American estimates that the customer-annualization adjustment increases the operating expenses by \$2,649. The amounts include an additional \$2,041 in fuel and power expenses, \$93 for transmission and distribution costs, \$135 for customer-accounting expense and \$80 for postage expense.

**Q.     HOW DID YOU CALCULATE THE FOUR OPERATING EXPENSE  
INCREASES ASSOCIATED WITH ANNUALIZED CUSTOMERS?**

A.     The average cost for fuel and power per 1,000-gallons sold is \$0.244. This figure is calculated by dividing \$1,573,296 spent on fuel and power during the test year by 6,440,256 thousand gallons sold during the test year. (Schedule H-2, line 44) The average annual usage for a customer in Sun City is 278.87 thousand gallons. (Schedule

H-2, line 33) For an additional 30 customers, Arizona-American will need to provide 8,366 additional thousand gallons (30 times 278.87 = 8,366) per year. At \$0.244 per thousand gallons, Arizona-American would incur an additional \$2,041 in fuel and power charges to serve these customers.

Second, Arizona-American will need to add \$93 in additional transmission and distribution ("T&D") costs to serve these additional customers. The test-year T&D costs were \$304,976 less \$2,972 for fuel accounted for above, or \$302,004 non-fuel T&D test-year expenses. Dividing \$302,004 T&D cost by 6,440,256 thousand gallons sold in the test year results in an average cost of \$0.047 per thousand gallons sold. Therefore, multiplying \$0.047 by 8,366 additional thousand gallons sold results in \$393 in additional T&D expense.

Third, test-year postage expense was \$61,965 for 23,094 customers (Schedule H-2, line 44). That is an average cost per customer of \$2.68 annually. For 30 additional customers, one would have to add \$80 (\$2.68 times 30) for additional postage expense.

Fourth, test-year customer accounting expense, less postage, was \$103,913, an average cost per customer of \$4.50. For 30 additional customers, one would have to add \$135 (\$4.50 times 30) for additional customer accounting expense.

**V OPERATING EXPENSES**

**Q. PLEASE SUMMARIZE ARIZONA-AMERICAN'S TEST YEAR EXPENSE WITH PRO FORMA EXPENSES AND CORRESPONDING ADJUSTMENTS MADE BY OTHER PARTIES?**

A. The table below shows Arizona-American's test-year expenses with *pro-forma* expenses, before any increase in revenue, and indicates the other parties' operating expense adjustment number and amount:

O&M Exp Description	Co TY Adjusted \$	Staff Adj. No.	Staff Adj. (\$)	RUCO Adj. No.	RUCO Adj. (\$)
Labor	\$1,137,093			Op Adj. #1 Op Adj. #2	(\$1,047) (\$2,475)
Fuel & Power	\$1,573,296			Op Adj. #3 Op Adj. #4	(\$ 266) (\$ 334)
Chemicals	\$ 49,041				
Waste Disp	\$ 4,270			Op Adj. #11	(\$4,270)
Mgmt Fees	\$1,386,158			Op Adj. #8	(\$32,230)
Group Ins	\$ 276,821			Op Adj. #1 Op Adj. #2	(\$ 7) (\$ 1,010)
Pensions	\$ 51,046			Op Adj. #2	(\$ 105)
Reg Exp	\$ 50,000	Op Adj. #1	(\$25,508)	Op Adj. #9	(\$18,578)
Ins Other	\$ 51,587			Op Adj. #3	\$ 634
Cust Acctg	\$ 165,878			Op Adj. #3	\$ 12
Rents	\$ 19,442			Op Adj. #3	(\$ 31)
Gen'l Office	\$ 97,290			Op Adj. #3	(\$ 5,496)
Misc	\$ 360,734			Op Adj. #1 Op Adj. #2 Op Adj. #3 Op Adj. #7	(\$ 41) (\$ 58) (\$ 3,548) (\$ 4,405)
Maint Exp	\$ 173,137			Op Adj. #3	(\$ 298)
Deprec & Amtzn	\$1,287,646	Op Adj. #2	(\$34,767)	Op Adj. #3 Op Adj. #10	(\$ 770) (\$37,825)
Gen'l Taxes	\$ 397,983	Op Adj. #3	(\$32,578)	Op Adj. #1 Op Adj. #2 Op Adj. #5	(\$ 105) (\$ 247) (\$23,686)
Inc Taxes	(\$86,355)	Op Adj. #4	\$33,687	Op Adj. #12	\$51,450
Sub-total Adjustments			(\$59,166)		(\$84,736)
Total O&M Exp	\$6,995,068		\$6,935,902		\$6,910,332

**Q. WHAT ADJUSTMENT TO LABOR EXPENSE DID RUCO MAKE?**

A. RUCO disallowed the promotions during the test year for four employees resulting in a decrease in expense of \$1,047.

**Q. WHY DID RUCO DISALLOW THE PROMOTIONS?**

A. RUCO used the hourly rate at the middle of the test year rather than the hourly rates at the end of the test year for these four employees. There is no reason not to use the hourly rates at the end of the test year for these four employees because the salary increase occurred during the test year.

**Q. WHAT OTHER EXPENSES WERE AFFECTED BY THIS REDUCTION TO  
LABOR EXPENSE IN RUCO'S OPERATING ADJUSTMENT NO. 1?**

A. RUCO's downward adjustment to labor expense also reduced group insurance by \$7, miscellaneous expense for 401k by \$41, and general taxes for payroll taxes by \$105 for a total additional decrease in expenses of \$153.

**Q. DOES ARIZONA-AMERICAN ACCEPT ANY OF RUCO'S OPERATING  
ADJUSTMENT NO. 1, TOTALING (\$1,200)?**

A. No. The salary increases occurred during the test year and the labor-related expense increases are proper.

**Q. DID STAFF MAKE ANY SIMILAR DISALLOWANCES?**

A. No.

**Q. WHAT DID RUCO ADJUST IN LABOR EXPENSE IN ITS OPERATING  
ADJUSTMENT NO. 2 FOR (\$2,475)?**

A. RUCO removed the Eastern Division allocated labor expenses because it mistakenly believes that the Eastern Division was abolished. This adjustment reduces the labor expense by \$2,475. As I explained under the rate base discussion, Arizona-American creates "Divisions" in Arizona for operating purposes only. Currently, Arizona-American divides its Arizona operations into an Eastern and Central Division. Both "divisions" have operation managers and many of their employees share our Sun City office space and often provide back-up assistance and support when needed. Both "divisions" use our customer service representatives who physically work from our Sun City Office. These operating "division" designations change from time to time as Arizona-American sees fit to accommodate its operations and personnel. As stated earlier, we have decided to combine these designations into Corporate and allocate them

1 across all the business units based on the Four-Factor Allocations since the "divisional"  
2 designations are flexible and subject to change.

3 **Q. DID RUCO REDUCE ANY OTHER LABOR-RELATED EXPENSES IN THIS**  
4 **OPERATING ADJUSTMENT NO. 2, AS A RESULT OF THE LABOR EXPENSE**  
5 **DECREASE?**

6 A. Yes. RUCO also reduced group insurance by \$1,010, pensions by \$105, miscellaneous  
7 expense for 401k expense by \$58, and general taxes for payroll taxes by \$247 for an  
8 additional adjustment by \$1,420.

9 **Q. DOES ARIZONA-AMERICAN ACCEPT RUCO'S \$3,895 DECREASE IN**  
10 **OPERATING ADJUSTMENT NO. 2 FOR LABOR AND LABOR RELATED**  
11 **EXPENSES DUE TO THE DELETION OF THE EASTERN DIVISION FROM**  
12 **ALLOCATIONS?**

13 A. No.

14 **Q. DOES STAFF MAKE ANY SIMILAR ADJUSTMENT FOR ANY SIMILAR**  
15 **REASONS?**

16 A. No.

17 **Q. WHY DID RUCO ADJUST FUEL AND POWER EXPENSE IN OPERATING**  
18 **ADJUSTMENT NO. 3?**

19 A. Again, RUCO deleted all allocated expenses having to do with the Eastern Division.

20 **Q. WHAT OTHER EXPENSE ITEMS AND LEVELS DID RUCO ADJUST IN ITS**  
21 **ASSUMED ABOLISHMENT OF THE EASTERN DIVISION?**

22 A. RUCO increased insurance other by \$634, increased customer accounting by \$12,  
23 decreased rent expense by \$12, decreased general office expense by \$5,496, decreased  
24 miscellaneous by \$3,548, decreased maintenance expense by \$298, and decreased

1 depreciation and amortization expense by \$770. This is a total change for Operating  
2 Adjustment No. 3 of (\$9,763), none of which Arizona-American can accept. The Eastern  
3 Division has expenses, continues to have expenses, and, is part of the operations of  
4 Arizona-American that should be shared among all the different districts.

5 **Q. DID STAFF MAKE ANY SIMILAR ADJUSTMENTS FOR ANY SIMILAR**  
6 **REASONS?**

7 A. No.

8 **Q. WHY DID RUCO DISALLOW A PORTION OF THE FUEL AND POWER**  
9 **EXPENSE IN OPERATING ADJUSTMENT NO. 4?**

10 A. The \$334 decrease represents the amount Arizona-American paid for a late payment fee  
11 on an electric bill. Accordingly, Arizona-American accepts this adjustment.

12 **Q. WHAT ADJUSTMENT DID RUCO MAKE TO WASTE DISPOSAL EXPENSE IN**  
13 **OPERATING ADJUSTMENT NO. 11?**

14 A. RUCO's adjustment removes the entire amount of the waste-disposal expense of \$4,270.  
15 This was a year-end accrual for sales tax, not income tax as RUCO assumed. The  
16 amount is reversed in January 2007. It was put in the Sun City Water business unit in  
17 error and should be removed. Arizona-American accepts this adjustment.

18 **Q. WHAT ADJUSTMENT DID RUCO MAKE TO MANAGEMENT FEES IN**  
19 **OPERATING ADJUSTMENT NO. 8?**

20 A. RUCO reduced Arizona-American's Management Fees by \$32,230. The amount  
21 constitutes 30% of the AIP award allocated to the Sun City Water District, which  
22 represents the amount of bonus related to Arizona-American's financial performance.  
23 Arizona-American does not accept this adjustment, as discussed in Mr. Broderick's  
24 rebuttal testimony.

**Q. DOES ARIZONA-AMERICAN ACCEPT STAFF'S OPERATING ADJUSTMENT NO. 1?**

A. Arizona-American does not accept Staff's reduction of \$25,508 in regulatory expense. Arizona-American already voluntarily reduced rate case expense from \$150,000 to \$94,266 as shown in Mr. Broderick's Rebuttal Exhibit TMB-R4, and therefore reduced the proposed three-year amortization from \$50,000 to \$31,422. This is a reduction of \$18,578 on Arizona-American's part. Staff's adjustment is an additional reduction of \$9,430 and consists of cutting our attorney's estimate of the time necessary to work on testimony, rebuttal, rejoinder, hearings, two briefs, review of Staff and intervenors direct and surrebuttal testimonies, and representation at Open Meeting from 160 hours to 75 hours. Staff cut this estimate to 75 hours but gave no reason. Our attorney's estimate is based on his experience in these matters. I see no reason to go with Staff's accounting witness's estimate rather than our attorney's estimate.

Arizona-American stands by its revised rate case expense of a three-year amortization of \$94,266, or an annualized cost of \$31,422.

**Q. DOES ARIZONA-AMERICAN ACCEPT RUCO'S OPERATING ADJUSTMENT NO. 9?**

A. Arizona-American accepts RUCO's adjustment No. 9 - the reduction of \$18,578 in rate-case expense. Although RUCO's reasons were different than Arizona-American's, the end result is the same amount of rate case expense.

**Q. DO YOU AGREE WITH RUCO'S OPERATING ADJUSTMENT NO. 7?**

A. Arizona-American has voluntarily reduced its miscellaneous expense line item by \$10,646. We removed expenses for charities, donations, United Way support, community relations, service awards, etc. Arizona-American cannot accept RUCO's Adjustment No. 7 to further remove all meals we provide employees who work in the

1 field when they are called out for overtime work, meals for training, meals for group  
2 meetings, meals for employees who have to travel for work, etc. Arizona-American only  
3 pays for employees' meals if our customers receive benefits as a result of the  
4 expenditure. For example, Arizona-American often purchases and delivers meals to the  
5 site where employees are working overtime. This minor expenditure often leads to a  
6 reduction in the time needed to complete the overtime tasks. Rather than paying for our  
7 employees to attend training seminars that serve meals, Arizona-American tries to save  
8 expense by using its internal expertise to conduct training for our employees. Lastly, it's  
9 simply inappropriate for RUCO to disallow meal expenditures for employees who are  
10 required to travel for work reasons. Most companies and all government employees are  
11 entitled to meal allowances when traveling for work. Arizona-American does not  
12 understand why RUCO disallowed these meal costs which provide direct benefits to our  
13 customers. We disagree with the disallowance for meals and would add back \$184 to  
14 RUCO's disallowance of \$4,405.

15 **Q. WHAT IS THE AMOUNT OF ARIZONA-AMERICAN'S REDUCTION TO**  
16 **DEPRECIATION EXPENSE IN THIS REBUTTAL TESTIMONY ASSOCIATED**  
17 **WITH THE REDUCTION IN UPIS?**

18 **A.** Although Arizona-American had the same plant reductions as Staff, our annual  
19 depreciation expense reduction is \$25,560. The main difference in annual depreciation  
20 expense between Staff and Arizona-American is in general plant. There are two  
21 categories of general plant -- Sun City Water District specific (Arizona-American's B-2  
22 Schedules, electronically on Tab ADJ JMR-1) and Corporate, Central Division, or  
23 Eastern Division-allocated specific (Arizona-American's B-2 Schedules, electronically  
24 on Tabs ADJ JMR-2, JMR-3, and JMR-4). For example, account 340100 (office  
25 furniture), the depreciation rate approved in the 2001 rate case (Decision No. 67093) for  
26 Sun City Water district specific for this account was 4.59%, but in the last rate case in

1        which the depreciation expense for the office furniture for the Corporate and Central and  
2        Eastern Division offices were approved, the depreciation rate for this account was 4.04%.  
3        Arizona-American split these items up because they have different depreciation schedules  
4        (as did RUCO). The Commission has approved different rates for the same numbered  
5        accounts depending in which district or division that property account is located.  
6        Arizona-American's schedule reflects more accurately the latest approved depreciation  
7        rates from the Commission, based on the splits among the Divisions and Districts. Staff  
8        added all the general plant together and used the Sun City Water depreciation rates  
9        approved in 2001, ignoring the rates specifically approved for Corporate, Central, and  
10       Eastern Divisions in the latest rate case in which those specific divisions were involved.

11    **Q.    DOES ARIZONA-AMERICAN ACCEPT RUCO'S ADJUSTMENT TO**  
12    **DEPRECIATION EXPENSE?**

13    A.    Arizona-American does not accept RUCO's adjustment to depreciation expense (RUCO  
14    Operating Expense Adjustment No.10). The difference between Arizona-American and  
15    RUCO is (\$12,265), and the majority of the difference can be attributed to RUCO's  
16    double allocation of the amortization of the Y2K costs. \$1,491,737 of regulatory assets  
17    approved for amortization includes a depreciation study, Y2K costs, and L/T effluent.  
18    These assets were divided up among the Citizen's properties by the Commission and Sun  
19    City Water's amount was determined to be \$655,877, to be amortized at 2.83%. That is  
20    what Staff and the Arizona-American did.

21       Now, RUCO is trying to allocate the portion that was attributed to Sun City Water in the  
22       last rate case, Decision 67093, and reallocate that amount to all the districts, including  
23       Paradise Valley, for the first time. Arizona-American rejects this reallocation to all  
24       districts including those that were not formerly Citizen's districts. Arizona-American and  
25       Staff used the allowed amortization of \$18,573 whereas RUCO reduced this amortization

1 expense by (\$15,737) to only \$2,836 by using the four-factor allocations and reallocating  
2 the Sun City-only portion of the amortization to all other districts. RUCO's allocation is  
3 inconsistent with Commission Decision No. 67093 and should be rejected.

4 Mr. Coley, RUCO's witness in the Sun City Wastewater case and in this case, was  
5 incorrect when he stated in both cases that 100% of the Y2K amortizations were put into  
6 each of these districts. Arizona-American has always followed the order in Decision No.  
7 67093 and assigned to each of these districts the district's proportionate share of the  
8 \$1,491,737.

9 **Q. ARE THERE ARE ANY OTHER FACTORS THAT CAUSE THE DIFFERENCE**  
10 **IN DEPRECIATION EXPENSE BETWEEN ARIZONA-AMERICAN AND**  
11 **RUCO?**

12 A. Yes. First, Arizona-American rejects RUCO's disallowance of the Eastern Division  
13 UPIS which leads to a reduction in depreciation expense of \$919. As stated earlier,  
14 Arizona-American does not agree to the disallowance of the Eastern Division UPIS  
15 because the plant was moved after the test year.

16 Second, in account 304600, RUCO removed too much money for the office renovation,  
17 which was discussed in the Rate Base section above. This leads to an excessive reduction  
18 in depreciation expense by \$211.

19 Third, in account 307000, RUCO did not include its Rate Base adjustment No. 3 which  
20 reduces its plant balance by an additional \$19,085 and would further reduce its  
21 depreciation expense by an additional \$481.

22 Fourth, RUCO's Schedule TJC-15 has a strange difference between column (A) and  
23 column (C) with no adjustment in column (B) for accounts 341100 and 346300 – one a  
24 reduction of \$399 in plant and one an increase of \$399 in plant with no support. This

1 resulted in a decrease in depreciation expense of \$100 and an increase in depreciation  
2 expense of \$20, both of which are wrong.

3 Finally, it would appear RUCO reduced depreciation expense for the amortization of the  
4 Youngtown Plant twice, once on line 62 of Schedule TJC-15 and again 7 lines later on  
5 the same schedule.

6 The Commission should reject RUCO's Operating Expense Adjustment No. 10 for all the  
7 reasons stated above.

8 **Q. WHAT IS THE DIFFERENCE IN GENERAL TAX EXPENSE BETWEEN**  
9 **ARIZONA-AMERICAN AND STAFF?**

10 A. The difference is caused by the calculation of property taxes. Staff does its property tax  
11 calculation in two parts, present rate pro forma and proposed rate pro forma. Staff  
12 Adjustment No. 3 on Schedule AII-15 shows a Present Rate adjustment of (\$32,578) and  
13 a Proposed Rate adjustment of \$21,268 for a proposed property tax expense of \$286,447.  
14 This amount perhaps would change with Staff's revised revenue requirement, but the  
15 Staff witness did not file revised property tax exhibits for the revised revenue  
16 requirement. Arizona-American's proposed revenue is slightly higher and therefore the  
17 proposed property tax expense is also slightly higher at \$287,366 plus \$3,324 for the  
18 individually assessed parcels where the assessment for the primary tax and the secondary  
19 tax are not based on the same assessment. This is the only difference between Staff and  
20 Arizona-American, a total of \$4,244 in property tax expense at the proposed level.

21 **Q. PLEASE EXPLAIN THE DIFFERENCE IN GENERAL TAX EXPENSE**  
22 **BETWEEN ARIZONA-AMERICAN AND RUCO?**

23 A. RUCO did two different property tax calculations, but its direct testimony supports its old  
24 standby calculation, which has been regularly rejected by the Commission. RUCO's

1 calculation uses three historical years, including the unadjusted test year of 2006 which  
2 has 385 days. This flaw in RUCO's calculation resulted in property tax expense of  
3 \$274,073, higher than even Staff's Present Rate property tax expense from the use of  
4 2005 and 2006 revenues, both of which are higher than the test year adjusted revenue.  
5 This is a very odd result for proposed rate property tax and Arizona-American rejects  
6 RUCO's method and results.

7 RUCO offers an alternative method but does not make use of this method. The  
8 alternative gives the highest property tax expense among all the parties, which again is  
9 due to the use of the flawed 385 days of revenue in the test year. Arizona-American  
10 rejects RUCO's flawed alternative results as well.

11 **Q. DOES ARIZONA-AMERICAN HAVE ANY ADDITIONAL EXPENSE**  
12 **ADJUSTMENTS TO MAKE AT THIS TIME?**

13 A. Yes. Arizona-American has one more expense adjustment - amortized tank painting  
14 expense. When we purchased the Sun City Water district assets from Citizens Utilities,  
15 we inherited a 4.5 year amortization related to \$52,748 of deferred tank painting  
16 expenditures. The amount has been deferred in account 186401, a deferred asset, and  
17 amortized from August 2002 through January 2007. Beginning in February 2006, Sun  
18 City Water has been deferring tank painting expenses in account 186401 and has  
19 accumulated an additional \$122,498 of deferred charges through the end of the test year.  
20 We request amortization of the tank painting maintenance expenses over three years at  
21 \$40,833 per year. The reason Arizona-American requests a three year amortization  
22 period is due to the upcoming tank maintenance schedule. All the remaining tanks in the  
23 Sun City Water district are to be inspected in 2008. In addition, the remaining tanks are  
24 scheduled to be painted, both inside and outside, two in 2008 for an estimated cost of  
25 \$336,000; two in 2009 for an estimated cost of \$215,000; five in 2010 for an estimated

1 cost of \$575,000, two in 2011 for an estimated cost of \$240,000; and two in 2012 for an  
2 estimated cost of \$240,000. There will be almost \$58,000 in inspection costs in addition  
3 to the painting costs. Arizona-American, therefore, is expecting to be spending more than  
4 \$1,650,000 over the next five years. Depending on the timing of the filing of the next  
5 rate case, there will likely be quite a large deferral of tank painting expenses that will  
6 need to be recovered.

7 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY IN THIS CASE?**

8 **A. Yes.**

EXHIBIT LJG – R1

Arizona American Water Company - Sun City Water  
Test Year Ended December, 2006  
Computation of Increase in Gross Revenue Requirement

Exhibit LJG-R1  
Schedule A-1 Rebuttal  
Page 1  
Witness: Gutowski

Line No.		Company Direct		Company Rebuttal	
1	Original Cost Rate Base	\$25,961,898		\$24,960,997	
2					
3	Adjusted Operating Income	693,411		702,920	
4					
5	Current Rate of Return	2.67%		2.82%	
6					
7	Required Operating Income	\$ 2,071,759		\$ 1,920,253	
8					
9	Required Rate of Return	7.98%		7.69%	
10					
11	Operating Income Deficiency	\$ 1,378,348		\$ 1,217,333	
12					
13	Gross Revenue Conversion Factor	1.6286		1.6286	
14					
15	Increase in Gross Revenue Requirement	\$ 2,244,826		\$ 1,982,590	
16					
17					
18	Customer	Present	Proposed	Dollar	Percent
19	Classification	Rates	Rates	Increase	Increase
20					
21	Residential	\$6,185,012	\$7,979,313	\$1,794,301	29.01%
22	Commercial	1,239,905	1,623,699	383,794	30.95%
23	Irrigation	14,394	18,646	4,252	29.54%
24	Private Fire	20,803	40,554	19,751	94.94%
25	Public Interruptible	55	83	28	51.03%
26	Public Interruptible/Stand-by City of Peoria	3,493	5,275	1,782	51.03%
27	CAP - Raw (MISC-1/CAP-1)	119,966	155,738	35,772	29.82%
28					
29					
30	Total Water Revenues	\$7,583,628	\$9,823,308	\$2,239,681	29.53%
31					
32					
33					
34					
35					
36					
37					
38					
39					
40	Supporting Schedules:				
41	B-1				
42	C-1				
43	H-1				
44					
45					
46					
47					
48					
49					
50	\\Schedules\2007 Sun City Water Sch. A-F.xls\				

Arizona American Water Company - Sun City Water  
Test Year Ended December, 2006  
Original Cost Rate Base Proforma Adjustments

Exhibit LJG-R1  
Schedule B-2 Rebuttal  
Page 1  
Witness: Gutowski

Line No.		Adjusted End of Test Year	STAFF RB-1 Wells AGREE	STAFF RB-2 WT Equip AGREE	STAFF RB-3 Dist Stdp AGREE	STAFF RB-4 Land AGREE	STAFF RB-5 SC Office AGREE	Revised Accum Dep	Company Rebuttal Adjusted End of Test Year
1	Gross Utility								
2	Plant in Service	\$45,025,075	\$(427,725)	\$(19,594)	\$(319,215)	\$(148,130)	\$(187,155)		\$43,923,256
3		-							
4	Less:	-							
5		-							
6	Accumulated Depreciation	17,192,328						\$ (100,918)	\$17,091,410
7									
8	Net Utility Plant								
9	in Service	\$27,832,747	\$(427,725)	\$(19,594)	\$(319,215)	\$(148,130)	\$(187,155)	\$ 100,918	\$26,831,846
10									
11	Less:								
12	Advances in Aid of								
13	Construction	3,576,920							3,576,920
14	Contributions in Aid of								
15	Construction - Net	63,004							63,004
16	Imputed Regulatory Advances	551,760							551,760
17	Imputed Regulatory Contributions	567,874							567,874
18	Customer Meter Deposits	2,100							2,100
19	Deferred Income Taxes	(1,938,781)							(1,938,781)
20	Investment Tax Credits	-							-
21									
22									
23	Plus:								
24	Deferred Debits	642,628							642,628
25	Working capital	309,400							309,400
26	Utility Plant Acquisition Adjustment	-							-
27									
28	Total	\$25,961,898	\$(427,725)	\$(19,594)	\$(319,215)	\$(148,130)	\$(187,155)	\$ 100,918	\$24,960,997

Exhibit LJG-R1  
Schedule C-2 Rebuttal  
Page 1

## Income Statement Pro Forma Adjustments

Line No.	Description	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]	[M]
		Test Year Adjusted Results	RUCO #4 TJC-8 Late Paymt AGREE	RUCO #11 TJC-8 Waste Disp AGREE	Tank Painting NEW	RC Exp	TJC-8 Misc Exp AGREE	Deprec	Prop Tax	Inc Tax	Interest Sync	Present Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues													
2	Water Revenues	\$ 7,578,436										\$ 7,578,436	\$ 1,982,590	\$ 9,561,026
3	Other Revenues	\$ 110,043										\$ 110,043		110,043
4														
5		\$ 7,688,479	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		\$ 7,688,479	\$ 1,982,590	\$ 9,671,069
6	Operating Expenses													
7	Labor	\$ 1,137,093										\$ 1,137,093		\$ 1,137,093
8	Purchased Water	\$ -										\$ -		\$ -
9	Fuel & Power	\$ 1,573,296	\$ (334)									\$ 1,572,962		\$ 1,572,962
10	Chemicals	\$ 49,041										\$ 49,041		\$ 49,041
11	Waste Disposal	\$ 4,270		\$ (4,270)								\$ 0		\$ 0
12	Management Fees	\$ 1,386,158										\$ 1,386,158		\$ 1,386,158
13	Group Insurance	\$ 276,821										\$ 276,821		\$ 276,821
14	Pensions	\$ 51,046										\$ 51,046		\$ 51,046
15	Regulatory Expense	\$ 50,000										\$ 31,422		\$ 31,422
16	Insurance Other Than Group	\$ 51,587				\$ (18,578)						\$ 51,587		\$ 51,587
17	Customer Accounting	\$ 165,878										\$ 165,878		\$ 165,878
18	Rents	\$ 19,442										\$ 19,442		\$ 19,442
19	General Office Expense	\$ 97,290										\$ 97,290		\$ 97,290
20	Miscellaneous	\$ 360,734					\$ (4,405)					\$ 356,329		\$ 356,329
21	Maintenance Expense	\$ 173,137			\$ 40,833							\$ 213,970		\$ 213,970
22	Depreciation & Amortization	\$ 1,287,646						\$ (25,560)				\$ 1,262,086		\$ 1,262,086
23	General Taxes	\$ 397,983							\$ (3,172)			\$ 394,811	\$ (3,047)	\$ 391,765
24	Income Taxes	\$ (86,355)							\$ 5,978			\$ (80,378)	776,462	\$ 696,084
25														
26														
27	Total Operating Expenses	\$ 6,995,068	\$ (334)	\$ (4,270)	\$ 40,833	\$ (18,578)	\$ (4,405)	\$ (25,560)	\$ (3,172)	\$ 5,978		\$ 6,985,559	\$ 773,415	\$ 7,758,974
28	Utility Operating Income	\$ 693,411	\$ 334	\$ 4,270	\$ (40,833)	\$ 18,578	\$ 4,405	\$ 25,560	\$ 3,172	\$ (5,978)		\$ 702,920	\$ 1,209,175	\$ 1,912,095
29	Other Income & Deductions													
30	Other Income & Deductions	-												
31	Interest Expense	830,781									(25,980)	\$ 804,800		804,800
32	Other Expense	-										\$ -		\$ -
33	Gain/Loss Sale of Fixed Assets	-										\$ -		\$ -
34	Total Other Income & Deductions	\$ (830,781)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		\$ (804,800)	\$ -	\$ (804,800)
35	Net Profit (Loss)	\$ (137,369)	\$ 334	\$ 4,270	\$ (40,833)	\$ 18,578	\$ 4,405	\$ 25,560	\$ 3,172	\$ (5,978)		\$ (101,880)	\$ 1,209,175	\$ 1,107,295

45 Workpapers &amp; Supporting Documents:

46 \\Work Papers\Expenses\Expense.xls\

50 \Schedules\2007 Sun City Water Sch. A-F.xls\

Exhibit LJG-R1  
Schedule D-1 Rebuttal  
Page 1  
Witness: Gutowski

Company Originial		End of Test Year				End of Projected Year 6/30/2007			
Line No.	Item of Capital	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	Cost Rate	Weighted Cost
1	Long-Term Debt	\$ 14,953,579	57.60%	5.56%	3.20%	\$ 15,219,488	58.62%	5.50%	3.22%
2									
3	Stockholder's Equity	11,008,319	42.40%	11.3%	4.78%	10,742,410	41.38%	10.8%	4.47%
4									
5	Totals	25,961,898	100.00%		8.0%	25,961,898	100.00%		7.69%
6									
7									
8	Company Rebuttal								
9									
10	Item of Capital								
11	Long-Term Debt	\$ 14,377,078	57.60%	5.56%	3.20%	\$ 14,632,736	58.62%	5.50%	3.22%
12									
13	Stockholder's Equity	10,583,919	42.40%	11.3%	4.78%	10,328,261	41.38%	10.8%	4.47%
14									
15	Totals	24,960,997	100.00%		8.0%	24,960,997	100.00%		7.69%
16									
17									
18									
19									
20									
21									
22									
23									
24									
25									
26									
27									
28									
29									
30									
31									
32									
33									
34									
35									
36									
37									
38									
39									
40	Supporting Schedules:					Recap Schedules:			
41									
42									
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48									
49									
50	\\Schedules\2007 Sun City Water Sch. A-F.xls\								

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON, Chairman  
JEFF HATCH-MILLER  
WILLIAM A. MUNDELL  
KRISTIN K. MAYES  
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON  
FOR UTILITY SERVICE BY ITS SUN CITY  
WATER DISTRICT

DOCKET NO. W-01303A-07-0209

**REBUTTAL TESTIMONY  
OF  
BRADLEY J. COLE  
ON BEHALF OF  
ARIZONA-AMERICAN WATER COMPANY  
NOVEMBER 30, 2007**

**REBUTTAL TESTIMONY  
OF  
BRADLEY J. COLE  
ON BEHALF OF  
ARIZONA-AMERICAN WATER COMPANY  
NOVEMBER 30, 2007**

**TABLE OF CONTENTS**

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<b>II PURPOSE OF TESTIMONY.....</b>	<b>3</b>
<b>III FIRE FLOW .....</b>	<b>3</b>
<b>IV NON-ACCOUNT WATER.....</b>	<b>6</b>

<b>Exhibit BJC-R1</b>	<b>2007 Youngtown Pressure Test Results</b>
<b>Exhibit BJC-R2</b>	<b>Actual Fire Hydrant Replacement Cost in a Developed Area</b>
<b>Exhibit BJC-R3</b>	<b>Sun City '06 Water Use Data (From 2006 Annual Report)</b>
<b>Exhibit BJC-R4</b>	<b>RUCO's Response to Arizona-American's First Set of Data Request</b>

**EXECUTIVE SUMMARY**

In his rebuttal testimony Bradley J. Cole testifies as follows:

RUCO witness Ms. Diaz Cortez is incorrect that 12-inch mains are required to provide 1,500 gpm at 20 psi because many areas served by Arizona-American have mains smaller than 12 inches and provide flows at or above 1,500 gpm at 20 psi.

Arizona-American only recommended 1,500 gpm fire flow for multi-family and commercial developments. In the areas where Arizona-American proposed 1,500 gpm fire flow, Arizona-American does not recommend the installation of any 12-inch mains as part of the Sun City Water Fire Flow Improvement Project ("Fire Flow Project"). The Fire Flow Study recommends that 93.2% of the main replacements (44,130 linear feet) identified in the Fire Flow Study be upsized to six-inch (41,130 linear feet), 4.4% be upsized to 8-inch (1,950 linear feet) and 2.4% be upsized to 10-inch (1,050 linear feet). Ms. Diaz Cortez's discussion about the cost of upgrading to 12-inch mains should be disregarded.

Ms. Diaz Cortez's is also incorrect that certain sections of Youngtown are experiencing pressures of less than 20 psi. All areas of Youngtown served by Arizona-American have pressures of at least 20 psi, in accordance with Commission regulations. Recent tests have confirmed this statement.

Arizona-American has one disagreement with the Staff Engineering Report. Staff recommended reducing the estimated fire hydrant replacement cost from \$5,000 per unit to \$3,000 per unit. Staff based the cost estimate on "the Main Extension Agreement projects submitted by Arizona-American in 2007...." This is inappropriate because these hydrants are typically installed before streets and sidewalks are paved, and landscaping is installed. By contrast, the Fire Flow Project will require replacement of hydrants located in developed areas, with paved streets, sidewalks, and mature landscaping. Arizona-American will incur restoration expenses for the repair, replacement or restoration of streets, sidewalks, and landscaping that must be disrupted during the hydrant-installation process. This accounts for the additional \$2000/meter replacement cost.

Staff also recommends some additional water-loss reporting requirements. The Company believes that most of these requirements are already provided in the Company's required annual report and is willing to revise its annual report to incorporate Staff's recommendations.

Arizona-American's 2006 water-loss percentage for Sun City Water was below the 10 percent threshold recommended by Staff.

**I     INTRODUCTION AND QUALIFICATIONS**

**Q.     PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE  
NUMBER.**

A.     My name is Bradley J. Cole. My business address is 15626 N. Del Webb Boulevard, Sun City, Arizona, 85351, and my business phone is 623-815-3136.

**Q.     BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A.     I am employed by Arizona-American Water Company ("Arizona-American") and I am the Director of Operations for Central Arizona, which includes the Sun City, Sun City West and Agua Fria Districts.

**Q.     WHAT ARE YOUR RESPONSIBILITIES AS THE DIRECTOR OF  
OPERATIONS?**

A.     I am responsible for water treatment, wastewater treatment, customer service, water distribution, and wastewater collection operations.

**Q.     PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

A.     I received a Master of Science in Business Administration from California Lutheran University in 2002. I received my Bachelor of Science in Business Administration from the University of La Verne in 1998. I have also completed various water-related technical courses that include water treatment, wastewater treatment, water distribution system operations and maintenance, water quality protection and cross-connection control, and water and wastewater management.

I am also an Arizona Department of Environmental Quality ("ADEQ") Grade III Water Distribution System Operator and a Grade II Water Treatment Plant Operator (#22916). I hold similar certifications in California with the California Department of Health Services (#6103 and #16907, respectively).

**Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.**

A. I have been employed by Arizona-American for approximately three years and in my present capacity as the Director of Operations for Central Arizona for the past four months. As the Director of Operations, I oversee and manage Arizona-American's water and wastewater services in the Sun City, Sun City West, and Agua Fria districts. Prior to becoming the Director of Operations, I was employed as the General Manager of Arizona-American's Eastern Operations for a period of two years, and my responsibilities included overseeing the water and wastewater operations in the communities of Tubac, Paradise Valley, Anthem, Bullhead City, and Lake Havasu. Prior to becoming the General Manager of Arizona-American's Eastern Division, I held the role of Arizona Production Manager overseeing Arizona-American's water and wastewater treatment plants in the communities of Sun City, Paradise Valley, and Anthem.

Prior to my employment with Arizona-American Water, I was employed for nearly 16 years by California-American Water Company ("California-American"). Like Arizona-American, California-American is a subsidiary of American Water Works Company. Before being promoted and transferred to the Arizona-American operations as the Production Manager, I held the position of Operations Manager in California-American's Ventura County operations located in the City of Thousand Oaks for almost three years. Before that, I held the position of Operations Supervisor for nearly four years and the remainder of my prior experience with California-American included the positions of Laborer, Utility Worker, and Distribution Clerk.

**Q. DO YOU HAVE ANY OTHER PROFESSIONAL AFFILIATIONS?**

A. Yes. I am an active member of the American Water Works Association (#424352) and a member of the Arizona Water and Pollution Control Association (#5776).

**Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY  
UTILITY COMMISSION?**

A. Yes. I sponsored testimony and testified in Arizona-American's Anthem/Agua Fria water and wastewater rate case (Docket No. WS-01303A-06-0405) and Arizona-American's Mohave Water and Wastewater rate cases (Docket No. WS-01303A-06-0014).

**II PURPOSE OF TESTIMONY**

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

A. Please refer to the Executive Summary, which precedes my direct testimony.

**III FIRE FLOW**

**Q. DID YOU REVIEW THE DIRECT TESTIMONY OF RUCO'S WITNESS MARY  
LEE DIAZ CORTEZ?**

A. Yes.

**Q. DO YOU DISAGREE WITH ANY ITEMS IN MS. DIAZ CORTEZ'S  
TESTIMONY CONCERNING THE FIRE FLOW IMPROVEMENT PROJECT?**

A. I have two disagreements with Ms. Diaz Cortez. First, she is incorrect that 12-inch mains are required to provide 1,500 gpm at 20 psi. This makes her entire discussion concerning the cost of 12-inch mains irrelevant. Second, her statement that certain sections of Youngtown are experiencing pressures of less than 20 psi is also incorrect.

**Q. WHY IS MS. DIAZ CORTEZ'S ENGINEERING OPINION THAT 12-INCH  
MAINS ARE NEEDED TO GENERATE 1,500 GPM AT 20 PSI IRRELEVANT IN  
THIS CASE?**

A. Ms. Diaz Cortez's opinion is irrelevant for two reasons. First, Arizona-American only recommended 1,500 gpm fire flow for multi-family and commercial developments;

1 Second, even in the areas where Arizona-American proposed 1,500 gpm fire flow,  
2 Arizona-American does not recommend installation of any 12-inch mains as part of the  
3 Sun City Water Fire Flow Improvement Project ("Fire Flow Project"). Arizona-  
4 American's recommendation can be found on pages 12 and 17 of the Sun City Water  
5 District Fire Flow Study ("Fire Flow Study"). To achieve the recommended fire flow,  
6 the Fire Flow Study recommends that 93.2% of the main replacements (44,133 linear  
7 feet) identified in the Fire Flow Study be upsized to six-inch (41,133 linear feet), 4.4% be  
8 upsized to 8-inch (1,950 linear feet) and 2.4% be upsized to 10-inch (1,050 linear feet).  
9 Since no 12-inch main upsizing is recommended by Arizona-American, Ms. Diaz  
10 Cortez's discussion about the necessity of upgrading to 12-inch mains should be  
11 disregarded.

12 **Q. WHY IS MS. DIAZ CORTEZ'S ENGINEERING OPINION THAT 12-INCH**  
13 **MAINS ARE NEEDED TO GENERATE 1,500 GPM AT 20 PSI INCORRECT IN**  
14 **THIS CASE?**

15 Because many areas served by Arizona-American have mains smaller than 12 inches and  
16 provide flows at or above 1,500 gpm at 20 psi. Ms. Diaz Cortez attempts to justify her  
17 engineering opinion by citing a table entitled "Required Flow and Openings to Flush  
18 Pipelines (40-psi Residual Pressure in Water Main)"<sup>1</sup>. Unfortunately, the table relied  
19 upon by Ms. Diaz Cortez does not support her opinion because the table represents a field  
20 guide to determine flow required to achieve 2.5 feet per second in water mains with a  
21 certain number of **specifically sized** openings. This table is typically used to determine  
22 the minimum **velocity (2.5 feet per second)** at which to flush mains of sediment in a  
23 main flushing program. The table should not be relied upon to design fire flow because  
24 one can achieve 1,000 gpm or even 1,500 gpm with 6 or 8-inch mains by increasing the  
25 flow velocity.

---

<sup>1</sup> BJC - R4.

1 **Q. WHY DO YOU DISAGREE WITH MS. DIAZ CORTEZ'S CLAIM THAT**  
2 **CERTAIN SECTIONS OF YOUNGTOWN ARE EXPERIENCING PRESSURES**  
3 **OF LESS THAN 20 PSI?**

4 A. All areas of Youngtown served by Arizona-American have pressures of at least 20 psi, in  
5 accordance with Commission regulations. Page 11, table 3 of the Fire Flow Study, in fact  
6 shows that all fire hydrants in the Sun City District have static pressures (lowest test  
7 location at 78 psi) well above the required minimums. Furthermore, Arizona-American  
8 also conducted a series of flow-study tests in 2004 and the results show that all areas  
9 within Arizona-American's Sun City district have residual flow pressures of no less than  
10 **48 psi** (Youngtown no less than 62 psi ). These test results are available under tab C of  
11 the Fire Flow Study. On October 24, 2007, Arizona-American conducted a series of four  
12 pressure tests in the Youngtown area served by Arizona-American. These pressure tests  
13 indicated static pressures at 60 psi or greater. The results of the 2007 tests are attached to  
14 my testimony as Exhibit BJC-1.

15 **Q. DID YOU REVIEW THE ENGINEERING REPORT OF STAFF UTILITIES**  
16 **ENGINEER, DOROTHY HAINS?**

17 A. Yes. My predecessor Brian Biesemeyer also spoke with Ms. Hains on a number of  
18 occasions while she was preparing the Staff Engineer's Report (the "Staff Engineering  
19 Report") and accompanied her during her tour of the Sun City Water facilities.

20 **Q. ARE THERE ANY ITEMS IN THE ENGINEERING REPORT WITH WHICH**  
21 **YOU DISAGREE?**

22 A. I have one disagreement with the Staff Engineering Report. On page 9, table 9 of the  
23 Staff Engineering Report, Staff recommended reducing the estimated fire hydrant  
24 replacement cost from \$5,000 per unit to \$3,000 per unit. I disagree with this lower  
25 project cost estimate. Although Staff's estimated cost does not *per se* establish a cost

1 ceiling, it is important for Arizona-American to provide an accurate project cost estimate  
2 to the Commission and our customers. Arizona-American's estimate of \$5,000 per unit is  
3 the accurate project cost estimate.

4 **Q. WHY IS STAFF ENGINEER'S ESTIMATED FIRE HYDRANT REPLACEMENT**  
5 **COST INACCURATE?**

6 A. Staff asserts that the per-unit cost of a hydrant replacement in Sun City/Youngtown  
7 should be \$3,000 instead of the \$5,000 estimate provided in the Brown & Caldwell  
8 Report. Staff based the cost estimate on "the Main Extension Agreement projects  
9 submitted by Arizona-American in 2007...." This is inappropriate because hydrants  
10 being installed pursuant to one of Arizona-American's main extension agreements are  
11 generally located in undeveloped areas. The hydrants are typically installed before  
12 streets and sidewalks are paved, and landscaping is installed. By contrast, the Fire Flow  
13 Project will require replacement of hydrants located in developed areas, with paved  
14 streets, sidewalks, and mature landscaping. Arizona-American will incur restoration  
15 expenses for the repair, replacement or restoration of streets, sidewalks, and landscaping  
16 that must be disrupted during the hydrant-installation process. This accounts for the  
17 additional \$2000/meter replacement cost.

18 **Q. DO YOU HAVE ANY ADDITIONAL EVIDENCE THAT SHOWS ARIZONA-**  
19 **AMERICAN'S COST ESTIMATE BETTER REFLECTS THE ACTUAL COST?**

20 A. Yes. I have attached Exhibit BJC-2 to show that an actual main replacement cost in a  
21 developed neighborhood.

22 **IV NON-ACCOUNT WATER**

23 **Q. ARE THERE ANY OTHER STAFF RECOMMENDATIONS YOU WISH TO**  
24 **COMMENT ON?**

25 A. Yes. On page 5 of the Staff Engineering Report, Staff recommends:

1 If the water loss at any time before the next rate case is greater than 10  
2 percent, the Company shall come up with a plan to reduce water loss to  
3 less than 10 percent, or prepare a report containing a detailed analysis and  
4 explanation demonstrating why a water loss reduction to 10 percent or less  
5 is not feasible or cost effective. Staff further recommends the Company  
6 docket such a report with the Commission's Docket Control in this same  
7 docket

8 Arizona-American does not object to Staff Engineer's recommendation that the Sun City  
9 Water System should have water loss of 10% or less, or the associated reporting  
10 requirements. However, some of the recommended water-loss reporting requirements  
11 duplicate information already submitted by Arizona-American in its annual report.

12 **Q. WHAT KINDS OF WATER LOSS DATA ARE INCLUDED IN THE ANNUAL**  
13 **REPORT FILED BY ARIZONA-AMERICAN?**

14 A. Arizona-American is required by statute and by Commission rules to file an annual report  
15 containing all its operating districts' water use data by month for a calendar year. The  
16 report includes number of customers, gallons sold, and gallons pumped/treated. Exhibit  
17 BJC - 3 shows Sun City's 2006 calendar-year water-use data.

18 **Q. WHAT IS THE WATER LOSS RATE FOR SUN CITY WATER IN 2006?**

19 A. In Arizona-American's pending Anthem Water rate case, Arizona-American proposed,  
20 and Staff accepted, the following water loss formula:

21 
$$\text{Water Loss} = [\text{Water Produced} - \text{Water Sold} - \text{Non-revenue authorized use}] / \text{Production}$$

22 During the calendar year 2006, the Sun City Water district produced 5.38 million gallons  
23 of water. During the same period, the district sold 4.84 million gallons of water, 89.96%  
24 of the water produced. Unfortunately, I could not calculate the water loss for 2006  
25 because Arizona-American did not track water used for non-revenue authorized water  
26 such as water use relating to flushing mains, testing meters, draining storage tanks,

1 company office use and fire hydrant maintenance. Arizona-American started tracking  
2 Sun City Water's non-revenue water loss shortly after I became the Director of  
3 Operations, overseeing Sun City Water District's operation. However, I am confident  
4 that the Sun City Water District's water loss for calendar year 2006 is below 10%,  
5 because, even without including the non-revenue authorized use adjustment, the Sun City  
6 Water District's water loss is only 0.04% above the 10% threshold.

7 **Q. HOW DOES ARIZONA-AMERICAN PROPOSE TO MODIFY THE ANNUAL**  
8 **REPORT TO INCORPORATE WATER LOSS DATA RECOMMENDED BY**  
9 **STAFF ENGINEER?**

10 A. Arizona-American will revise its annual report to incorporate Staff's recommendation. In  
11 addition to water sold and water pumped, Arizona-American will add one column  
12 reflecting the amount of non-revenue authorized water use and another column reflecting  
13 water loss percentage using the water loss formula. If the water loss for Sun City Water  
14 District in any given calendar year exceeds 10%, Arizona-American will file a report in  
15 this docket explaining why the water loss rate exceeds 10% and, if necessary, provide a  
16 mitigation plan aimed at reducing the annual water loss rate to 10% or less.

17 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY IN THIS CASE?**

18 A. Yes.

EXHIBIT BJC – R1

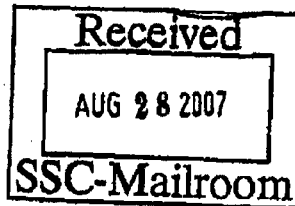
Arizona American Water Company  
Sun City Water  
Exhibit BJC-1

**2007 YOUNGTOWN PRESSURE TEST RESULTS**

<b>Date</b>	<b>Time</b>	<b>Location</b>	<b>City</b>	<b>Static PSI</b>
10/24/2007	12:31 PM	12005 N. 112th Dr.	Youngtown	80
10/24/2007	12:17 PM	11129 W. Michigan Ave.	Youngtown	60
10/24/2007	12:37 PM	11332 W. Greer Dr.	Youngtown	85
10/24/2007	12:48 PM	11117 W. Oregon Ave.	Youngtown	87

EXHIBIT BJC – R2

Wheeler Construction, Inc.  
P.O. Box 5277  
Phoenix, Arizona 85010-5277  
(602) 254-3179



TIME AND MATERIAL INVOICE

INVOICE NUMBER 07-1217

502-136

INVOICE DATE 8/21/2007

REVISION DATE

WORK ORDER #

NAME: Arizona American Water Company

ADDRESS: Attention: Steve Uraine

P.O. Box 5613

Cherry Hill

NJ

08034

ATTENTION:

PROJECT: 85963 - Sun City Pipe Repairs & Maintenance T & M FIELD CHANGE ORDER #

08/02/2007	Digging to find size of Fire Hydrant	\$1,280.00
08/03/07	Replace 6 Ft. Fire Hydrant	\$3,655.00

Bond \$0.00

Subtotal \$4,935.00

Tax Rate 6.5000% Sales Tax SX - \$320.78

Total Invoice \$5,255.78

Insurance Deduct \$0.00

Amount Due This Invoice \$5,255.78

**Pink - Foreman**



# WHEELER CONSTRUCTION, INC.

1310 N. 24TH STREET  
PHOENIX, ARIZONA 85008  
(602) 254-3179

CLASS A  
GENERAL ENGINEERING  
LICENSE #47572

## RENTAL TABULATION

DATE: 08-03-01

JOB NAME: Sanitary Repair

LESSEE: A2 American

JOB #: 85963-502-136

EQUIPMENT AND/OR LABOR	HOURS	@	RATE	=	TOTAL
Foreman & Pickup.	4		\$ 20 <sup>00</sup>		\$ 320 <sup>00</sup>
Blow Operator	4		140 <sup>00</sup>		560 <sup>00</sup>
Labor (2)	2		40 <sup>00</sup>		320 <sup>00</sup>
- 1, 4ft F.H.	\$				
- 1- MJ & Flg. fitting	\$				
- 1- 2ft F.H. Extension.	\$				\$ 2205 <sup>00</sup>
- 2- 6" Megalug.	\$				
- 1- 6" Flang Gasket & Bolt					
- Waker	2		50 <sup>00</sup>		100 <sup>00</sup>
- Compressor	3		50 <sup>00</sup>		150 <sup>00</sup>
SUBTOTAL					\$ 3655 <sup>00</sup>

LOCATION:

Replaced a 6" F.H. 10662 w Hutton Dr.

NATURE OF WORK:

Replaced a 6" F.H. Hydroant.

WHEELER CONSTRUCTION, INC.

BY

Jose R. Aguero

APPROVED BY:

Ry. Clark

White - Office

Canary - Lessee

Pink - Foreman

**Wheeler Construction, Inc.**  
1310 N. 24th Street  
Phoenix, Arizona 85008  
Phone 602-254-3179 Fax 602-254-1293

**CONDITIONAL WAIVER AND RELEASE ON PROGRESS PAYMENT**  
(Pursuant to A.R.S. 33-1008)

Project: **Sun City Pipe Repairs & Maintenance**  
Job No: **85963**

On receipt by the undersigned of a check from **Arizona American Water Company** the sum of **\*\*\$5,255.78\*\*** payable to **Wheeler Construction, Inc.** and when the check has been properly endorsed and has been paid by the bank on which it is drawn, this document becomes effective to release any Mechanic's Lien, any state or federal statutory bond right, any private bond right, any claim for payment and any rights under any similar ordinance, rule or statute related to claim or payment rights for persons in the undersigned's position that the undersigned has on the job of **Arizona American Water Company** located at **Sun City Pipe Repairs** to the following extent. This release covers a progress payment for all labor and materials through **8/21/07** only and does not cover any retention, pending modifications and changes or items furnished after that date.

Before any recipient of this document relies on it, that person should verify evidence of payment to the undersigned.

The undersigned warrants that he either has already paid or will use the monies he receives from this progress payment to promptly pay in full all of his laborers, subcontractors, materialmen and suppliers for all work, materials, equipment or services provided for or to the above referenced project up to the date of this waiver. The following invoices and pay applications are included in the above referenced amount: **Invoice #07-1217**

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Date: **August 23, 2007**

**WHEELER CONSTRUCTION, INC.**

---

By: \_\_\_\_\_

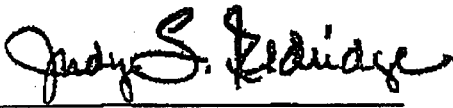
  
Judy L. Eldridge, CFO/Treasurer

EXHIBIT BJC – R3

**COMPANY NAME**

Arizona American Water Company - Sun City

**WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2006**

	NUMBER OF METERS	FEET	FEET
JANUARY	23,054	480,652	481,734
FEBRUARY	23,073	260,518	327,447
MARCH	23,077	362,332	387,477
APRIL	23,056	289,466	333,383
MAY	23,052	377,336	516,505
JUNE	23,053	481,586	638,534
JULY	23,058	481,071	537,102
AUGUST	23,059	523,221	482,820
SEPTEMBER	23,052	477,364	470,313
OCTOBER	23,056	319,166	401,433
NOVEMBER	23,057	424,471	500,094
DECEMBER	23,041	361,836	304,688
TOTALS =		4,839,019	5,381,530

Is the Water Utility located in an ADWR Active Management Area (AMA)?

☒ (X) Yes      ☐ ( ) No

Does the Company have An ADWR Gallons Per Capita Per Day (GPCPD) requirement?

☒ (X) Yes      ☐ ( ) No

If yes, provide the GPCPD amount: 255\*

What is the level of arsenic for each well on your system. \_\_\_\_\_mg/l  
(If more than one well, please list each separately) (SEE ATTACHED)

Note: If you are filing for more than one system, please provide separate data sheets for each system.

\*Estimate

EXHIBIT BJC – R4



## RESIDENTIAL UTILITY CONSUMER OFFICE

1110 WEST WASHINGTON STREET • SUITE 220 • PHOENIX, ARIZONA 85007 • (602) 364-4835 • FAX: (602) 364-4846

Janet Napolitano  
Governor

Stephen Ahearn  
Director

November 28, 2007

VIA ELECTRONIC MAIL  
ORIGINAL VIA US MAIL

Paul Li  
Associate Counsel  
Arizona-American Water Company  
19820 N. 7<sup>th</sup> Street, Suite 201  
Phoenix, Arizona 85024

Re: Arizona-American Water Company's First Data Request to the Residential Utility  
Consumer Office ("RUCO") ACC Docket No. W-01303A-07-0209

Dear Mr. Li:

Enclosed is the Residential Utility Consumer Office's ("RUCO") revised response to Arizona-American Water Company's First Data Request in the above-referenced docket.

If you have any questions, please feel free to contact me.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Pozefsky", is written over a horizontal line.

Daniel W. Pozefsky  
Attorney

DWP:eg

Enc.

cc: Thomas Broderick, Craig Marks

ARIZONA-AMERICAN WATER COMPANY – SUN CITY WATER  
DOCKET NO. W-01303A-07-0209  
RUCO'S REVISED RESPONSE TO  
ARIZONA-AMERICAN WATER COMPANY 'S  
FIRST SET OF DATA REQUESTS

---

- 1.1 On page 3, lines 15 to 18 of RUCO witness Marylee Diaz Cortez's testimony, Ms. Diaz Cortez asserts that "water system would have to over-size to at least 12-inch mains to generate [1,500 gpm] of fire flow." Please provide the basis for RUCO's assertion that only main size 12-inch or larger can generate flow of 1,500 gpm. Please also identify any fire flow improving proposal recommending replacement of existing mains with 12-inch or larger mains.

Response: Marylee Diaz Cortez

See Attachment 1.1. The Cost Summary of The Four Year Plan attached to the April 2, 2007 testimony of Brian K. Biesemeyer shows no 12-inch replacement mains.

ARIZONA-AMERICAN WATER COMPANY – SUN CITY WATER  
DOCKET NO. W-01303A-07-0209  
RUCO'S REVISED RESPONSE TO  
ARIZONA-AMERICAN WATER COMPANY 'S  
FIRST SET OF DATA REQUESTS

---

- 1.2 On page 9, line 7 to 13 of RUCO witness Marylee Diaz Cortez's testimony, she recommends "the Company immediately begin work on getting pressure up to the ACC required 20 psi for all sections of Youngtown." Please identify specific parts of Youngtown that are experiencing fire flow pressure below the required 20 psi.

Response: Marylee Diaz Cortez

RUCO does not have this information.

# ATTACHMENT AAW 1.1

## BASIC SCIENCE CONCEPTS & APPLICATIONS

### PIPE INSTALLATION & MAINTENANCE 55

Table 1-10. Required Flow and Openings to Flush Pipelines (40-psi Residual Pressure in Water Main)\*

Pipe Diameter in.	Flow Required to Produce 2.5 fps (approx.) Velocity in Main gpm	Size of Tap in.			Number of 2 1/2-in. Hydrant Outlets*
		1	1 1/2	2	
4	100	1	—	—	1
6	200	—	1	—	1
8	400	—	2	1	1
10	600	—	3	2	1
12	900	—	—	2	2
16	1600	—	—	4	2

\*With a 40-psi pressure in the main with the hydrant flowing to atmosphere, a 2 1/2-in. hydrant outlet will discharge approximately 1000 gpm and a 4 1/2-in. hydrant nozzle will discharge approximately 2500 gpm.  
†Number of taps on pipe based on no significant length of discharge piping. A 10-ft length of galvanized iron (GI) piping will reduce flow by approximately one third."

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON, Chairman  
JEFF HATCH-MILLER  
WILLIAM A. MUNDELL  
KRISTIN K. MAYES  
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF  
ARIZONA-AMERICAN WATER COMPANY,  
AN ARIZONA CORPORATION, FOR A  
DETERMINATION OF THE CURRENT FAIR  
VALUE OF ITS UTILITY PLANT AND  
PROPERTY AND FOR INCREASES IN ITS  
RATES AND CHARGES BASED THEREON  
FOR UTILITY SERVICE BY ITS SUN CITY  
WATER DISTRICT

DOCKET NO. W-01303A-07-0209

**DIRECT TESTIMONY  
OF  
CINDY DATIG  
ON BEHALF OF  
ARIZONA-AMERICAN WATER COMPANY  
NOVEMBER 30, 2007**

**DIRECT TESTIMONY  
OF  
CINDY DATIG  
ON BEHALF OF  
ARIZONA-AMERICAN WATER COMPANY  
NOVEMBER 30, 2007**

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**Exhibit CD - 1 Curriculum Vitae of Cindy Datig**

**EXECUTIVE SUMMARY**

In her direct testimony Cindy Datig testifies as follows:

Ms. Datig is the Executive Director of \$1 Energy Fund, Inc. ("1 Energy"). She has been working with Arizona-American Water Company ("Arizona-American") to design an appropriate Low-Income Assistance Program ("LIAP") for its Sun City Water District customers. 1 Energy works with its utility partners to create and administer programs that provide utility assistance to low-income families.

The affordability of home utility bills, whether they are home energy or water/sewer bills, is generally measured in terms of the "burden" which those bills impose on low-income customers. The burden of a water bill is determined by calculating the annual bill as a percentage of income. For example, if a household has annual income of \$5,000 and an annual water bill of \$500, the household would have a water burden of 10% [ $(\$500 / \$5,000) \times 100\% = 10\%$ ].

To evaluate the need for a LIAP for water service, we should first determine what the water-bill burden is for water customers with incomes at or somewhat above the Federal Poverty Income Guideline (the "FPIG"). Presently, the FPIG is \$10,210 annual income for a single-person household and \$13,690 for a two-person household.

Based on Arizona-American's Sun City Water District's proposed water rate, a household with income of 150% FPIG will pay 1.21% of its household income for water service. This is still well below the EPA's 2.5% affordability determination for households with median (50th percentile) income.

The Company's proposed LIAP provides a 50% discount on the basic service charge to eligible Sun City Water customers who enroll in the LIAP. Based on the information provided to me by Arizona-American, a 5/8-inch Sun City residential customer with median monthly usage will pay \$8.20 in basic service charge and \$7.21 in commodity charge per month under the Company's proposed rate design. A 50% discount on the monthly basic service charge will reduce that charge from \$8.20 to \$4.10 per month, thereby reducing a median Sun City Water District residential customer's monthly bill from \$15.41 to \$11.31, a 27% reduction in the overall monthly water bill.

An eligible Sun City Water District customer must be a full-time Sun City resident who is the primary account holder over 65 years of age. In addition, the eligible customer's annual household income cannot exceed 150% of the Federal Poverty Income Guideline ("FPIG"). Initially, Arizona-American will limit enrollment in the LIAP to the first 1,000 eligible Sun City Water District customers who enroll.

To enroll in the program, customers will first contact Arizona-American, which will then transfer the customer to 1 Energy to verify eligibility and complete enrollment.

The LIAP will satisfy the criteria set forth by RUCO for a successful LIAP, which should target the appropriate set of customers; create material benefits for qualifying participants; not be overly burdensome on non-participants; and be efficiently administered.

Arizona-American will pay 1 Energy a \$5,300 initial set up fee for the first three months of the program and \$2,500 per month thereafter. Hence, the on-going annual charge from 1 Energy is \$30,000. The fees charged by 1 Energy cover all the program administration expenses

1 including enrollment, income and guideline verification, and payment counseling. Also, there  
2 will be additional costs to Arizona-American to supply outreach materials, conservation kits, and  
3 seasonal bill inserts that promote the availability of the LIAP.  
4

5 Typically, the costs of a LIAP, including the amount of the monthly reductions to customer bills,  
6 are recovered by the utility from a variety of sources, including increased rates to the utility's  
7 customers, reductions in the utility's uncollectible accounts receivables and charitable donations.  
8 Mr. Broderick will address this question more specifically in his rebuttal testimony.

**I     INTRODUCTION AND QUALIFICATIONS**

**Q.     PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND TELEPHONE  
NUMBER.**

A.     My name is Cindy Datig. My business address is 15 Terminal Way, P.O. Box 42329,  
Pittsburgh, PA 15203, and my business phone is (412) 390-3863.

**Q.     BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

A.     I am the Executive Director of \$1 Energy Fund, Inc. ("1 Energy"), a 501(c) (3) non-  
profit organization founded in 1983. I have served in that capacity since 1986.

**Q.     WHAT ARE YOUR RESPONSIBILITIES AS THE EXECUTIVE DIRECTOR?**

A.     I act as the chief executive officer responsible for leadership and overall direction of 1  
Energy. In particular, I provide information and leadership to the 1 Energy Board of  
Directors. I am responsible to keep the Board informed about changing community  
needs so that the Board can modify 1 Energy's programs and policies accordingly, and  
can ensure that 1 Energy's resources are used in such a way as to assure maximum  
benefits to the consumer and the community.

**Q.     PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND  
EDUCATIONAL BACKGROUND.**

A.     Please see attached Exhibit CD-1 to my testimony.

**Q.     WHAT IS YOUR ROLE IN THIS PROCEEDING?**

A.     I have been working with Arizona-American Water Company ("Arizona-American") to  
design an appropriate Low-Income Assistance Program ("LIAP") for its Sun City Water  
District customers.

**Q.     WHAT IS 1 ENERGY FUND, INC.?**

1 A. \$1 Energy is a non-profit organization with the mission of improving the quality of life  
2 for households experiencing hardship by providing utility assistance and other services  
3 intended to lead to self-sufficiency. Specifically, \$1 Energy works with its utility  
4 partners to create and administer programs that provide utility assistance to low-income  
5 families.

6 **Q. HOW DOES \$1 ENERGY HELP PROVIDE UTILITY ASSISTANCE TO**  
7 **HOUSEHOLDS EXPERIENCING FINANCIAL HARDSHIP?**

8 A. \$1 Energy currently works with 15 utility partners to develop and administer utility  
9 assistance programs to help the utility's customers in times of hardship. Two of the 15  
10 utility companies with whom we proudly partner, Pennsylvania-American Water  
11 Company ("Pennsylvania-American") and New Jersey-American Water Company, are  
12 sister companies to Arizona-American. Through our 16-year relationship with  
13 Pennsylvania-American, we formed a water-assistance program division within \$1  
14 Energy. The division created the H2O Help to Others Program (the "H2O Program"), the  
15 first ever water utility LIAP in the United States. Although specific eligibility guidelines  
16 and/or discount amounts of the H2O Program may differ from state to state, the  
17 underlying design of all the H2O Programs remain the same – providing discounts on an  
18 eligible water customer's monthly service charge.

19 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**  
20 **UTILITY COMMISSION OR OTHER GOVERNMENTAL COMMISSION**  
21 **REGARDING UTILITY RELATED ISSUES?**

22 A. Yes. I testified in an administrative hearing before the Pennsylvania Public Utility  
23 Commission, specifically regarding the LIAP partnership between \$1 Energy and  
24 Pennsylvania-American. I have also provided testimony to the Pennsylvania Low  
25 Income Home Energy Assistance Program, Electric and Gas Utility Restructuring

Legislation, Policy and Guideline Statements on Customer Assistance Programs like LIAP, Program Funding, and Cost Recovery Mechanisms for Utility Programs.

**II PURPOSE OF TESTIMONY**

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

A. Please refer to the Executive Summary, which precedes my direct testimony.

**III SUN CITY WATER LOW-INCOME ASSISTANCE PROGRAM**

**Q. DOES ARIZONA-AMERICAN'S RATE CASE APPLICATION INCLUDE A LOW-INCOME ASSISTANCE PROGRAM?**

A. Yes. Please see the direct testimony of Mr. Thomas M. Broderick. I have been working with Mr. Broderick to develop an appropriate LIAP for Arizona-American's Sun City Water District's customers.

**Q. HOW DO YOU ANALYZE THE AFFORDABILITY OF THE COST OF WATER FOR LOW-INCOME CUSTOMERS?**

A. The affordability of home utility bills, whether they are home energy or water/sewer bills, is generally measured in terms of the "burden" which those bills impose on low-income customers. The burden of a water bill is determined by calculating the annual bill as a percentage of income. For example, if a household has annual income of \$5,000 and an annual water bill of \$500, the household would have a water burden of 10%  $[(\$500 / \$5,000) \times 100\% = 10\%]$

The affordability of the cost of water can be determined based on this information. In implementing the federal Safe Drinking Water Act ("SDWA"), the Environmental Protection Agency ("EPA") is required to evaluate the impact of any proposed new regulations on the burden deemed by EPA to be affordable for the customers. EPA bases its affordability determination on its premise that a household with the median (50<sup>th</sup> percentile) income should be able to pay 2.5% of its pre-tax income for water. Others

place the affordable burden at 2% of household income. An appropriately designed LIAP should ensure that the low-income families do not spend a larger percentage of their pre-tax-income for water service than households with median incomes.

To evaluate the need for a LIAP for water service, we should first determine what the water-bill burden is for water customers with incomes at or somewhat above the Federal Poverty Income Guideline (the "FPIG"). Presently, the FPIG is \$10,210 annual income for a single-person household and \$13,690 for a two-person household.

**Q. WHAT IS THE WATER-BILL BURDEN FOR LOW-INCOME CUSTOMERS IN SUN CITY?**

A. In Table 1, I use Arizona-American's typical residential rates to calculate the water-bill burden for Sun City low-income customers, based on the FPIG:

**Table 1 – Sun City Customer Utility Burden Analysis<sup>1</sup>**

	Service Charge		Commodity	
	Current	Proposed	Current	Proposed
Monthly	\$ 6.33	\$ 8.20	\$ 5.50	\$ 7.21
Annually	\$ 75.96	\$ 98.40	\$ 66.00	\$ 86.52
<b>Total Annual Water Bill</b>			<b>\$ 141.96</b>	<b>\$ 184.92</b>
Percent of income at 100% FPIG			1.39%	1.81%
Percent of income at 135% FPIG			1.02%	1.34%
Percent of Income at 150% FPIG			0.92%	1.21%

**Q. WOULD ARIZONA-AMERICAN'S PROPOSED WATER RATES MAKE THE COST OF WATER SERVICE UNAFFORDABLE FOR ITS SUN CITY WATER DISTRICT CUSTOMERS?**

<sup>1</sup> Based on median usage (6,431 gallons/month) and rates for residential customer with 5/8-inch or 3/4-inch meter size.

1 A. No. As demonstrated by the table above, based on Arizona-American's Sun City Water  
2 District's proposed water rate, a household with income of 150% FPIG will pay 1.21% of  
3 its household income for water service. This is still well below the EPA's 2.5%  
4 affordability determination for households with median (50<sup>th</sup> percentile) income.

5 **Q. PLEASE DESCRIBE ARIZONA-AMERICAN'S PROPOSED LIAP FOR ITS SUN**  
6 **CITY WATER DISTRICT CUSTOMERS.**

7 A. The Company's proposed LIAP provides a 50% discount on the basic service charge to  
8 eligible Sun City Water customers who enroll in the LIAP. Based on the information  
9 provided to me by Arizona-American, a 5/8-inch Sun City residential customer with  
10 median monthly usage will pay \$8.20 in basic service charge and \$7.21 in commodity  
11 charge per month under the Company's proposed rate design. A 50% discount on the  
12 monthly basic service charge will reduce that charge from \$8.20 to \$4.10 per month,  
13 thereby reducing a median Sun City Water District residential customer's monthly bill  
14 from \$15.41 to \$11.31, a 27% reduction in the overall monthly water bill.

15 **Q. UNDER THE PROPOSED LIAP FOR ARIZONA-AMERICAN'S SUN CITY**  
16 **WATER DISTRICT, WHO WOULD BE ELIGIBLE TO RECEIVE LOW-**  
17 **INCOME ASSISTANCE?**

18 A. An eligible Sun City Water District customer must be a full-time Sun City resident who  
19 is the primary account holder over 65 years of age. In addition, the eligible customer's  
20 annual household income cannot exceed 150% of the Federal Poverty Income Guideline  
21 ("FPIG"). Presently, 150% of FPIG is \$15,315 annual income for a single-person  
22 household and \$20,535 for a two-person household. An eligible, enrolled customer will  
23 continue to receive the discount as long as he or she remains eligible, maintains an active  
24 account, and continues making monthly on-time payments to Arizona-American.

1 Initially, Arizona-American will limit enrollment in the LIAP to the first 1,000 eligible  
2 Sun City Water District customers who enroll.

3 **Q. HOW WILL A CUSTOMER ENROLL IN THE LIAP?**

4 A. A residential water utility customer interested in enrollment in the LIAP will first call  
5 Arizona-American's toll-free customer service number and then ask to enroll. With the  
6 customer's permission, Arizona-American's customer service representative will transfer  
7 the customer's account information to \$1 Energy and forward the customer's call to \$1  
8 Energy's call center to complete the application process.

9 Next, a \$1 Energy customer service representative will ask the customer to provide  
10 relevant utility account information such as customer's name, address, phone number,  
11 and utility account number. \$1 Energy will then verify the information provided by the  
12 customer with the account information provided by Arizona-American to determine if the  
13 customer has an active water account with Arizona-American in its Sun City Water  
14 District.

15 **Q. IF THE CUSTOMER HAS AN ACTIVE WATER ACCOUNT WITH ARIZONA-**  
16 **AMERICAN, WHAT HAPPENS NEXT?**

17 A. If the customer has an active water account with Arizona-American in its Sun City Water  
18 District, the customer will then be required to fax or mail appropriate supporting  
19 documentation to \$1 Energy. To screen for income eligibility, the customer will be asked  
20 to provide proof of income including wages, social security, pension, disability, alimony,  
21 child support, interest on investment, or other forms of income. \$1 Energy will also  
22 accept the customer's proof of enrollment in other government-sponsored assistance  
23 programs that use similar income guidelines. To show proof of age, the customer will be  
24 required to submit a copy of his or her birth certificate, driver license, or another form of  
25 government-issued identification proving the customer's age.

1        \$1 Energy will also verify the applicant's full-time residency status by reviewing the  
2        applicant's water usage. Full-time residency will be determined by reviewing usage for a  
3        customer over the prior 36 months. Any customer who has used less than 2,000 gallons  
4        of water for three consecutive months during that time will have to provide additional  
5        information to support his or her full-time residency status.

6        A Sun City Water District customer will then be enrolled in the LIAP upon verification  
7        of the documents by \$1 Energy and the completion of the \$1 Energy enrollment process.  
8        Once the enrollment is complete, the customer will receive a letter of enrollment and the  
9        LIAP guidelines along with conservation material. \$1 Energy will then follow-up with  
10       the customer within ten days to ensure that the customer received the information.

11    **Q.    ONCE A CUSTOMER IS ENROLLED, HOW WILL THE CUSTOMER**  
12    **RECEIVE THE DISCOUNT?**

13    A.    Upon successful enrollment by the customer, \$1 Energy will notify Arizona-American of  
14    the application through \$1 Energy's Online System for Customer Account Records  
15    ("OSCAR".) OSCAR will serve as a real-time portal of communication between  
16    Arizona-American and \$1 Energy. Upon Arizona-American's verification of the  
17    customer account information provided via OSCAR, the customer will receive the  
18    discount on the next billing cycle.

19    **Q.    HAVE YOU REVIEWED MR. TIM COLEY'S TESTIMONY ON BEHALF OF**  
20    **RUCO CONCERNING LIAP?**

21    A.    Yes. Mr. Coley stated that an appropriate LIAP should: target the appropriate set of  
22    customers; create material benefits for qualifying participants; not be overly burdensome  
23    on non-participants; and be efficiently administered.<sup>2</sup> My testimony will address three of

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<sup>2</sup> Direct Testimony of Tim J. Coley at 30:2 – 32:2.

1 the four criteria stated by Mr. Coley. Mr. Broderick's testimony will address whether the  
2 LIAP is overly burdensome on non-participants.

3 **Q. HOW DOES THE PROPOSED LIAP TARGET THE APPROPRIATE SET OF**  
4 **LOW-INCOME SUN CITY WATER CUSTOMERS?**

5 A. Sun City's demographic data shows that the vast majority of the Sun City residents are  
6 retirees living on fixed incomes. In order to target the portion of the retiree community  
7 for the benefits of the LIAP, it is appropriate to set a minimum age-eligibility criteria for  
8 the LIAP in Arizona-American's Sun City Water District. This age eligibility will ensure  
9 that the program targets, in a general way, customers deemed to be most in need of  
10 financial assistance.

11 I was informed by Mr. Thomas Broderick that Arizona-American believes that seasonal  
12 or part-time residents, customers who go on extended leisure travel, or customers who  
13 own multiple homes are less likely to need LIAP, and thus, should not be eligible for  
14 LIAP.

15 An assistance program should have an income threshold appropriate for the community.  
16 After reviewing the demographic data for Sun City, I see no reason to deviate from the  
17 normal income threshold for LIAP – that is, annual income below 150% of the FPIG.  
18 The income threshold will ensure that the most vulnerable customers in the Sun City  
19 Water District receive the LIAP discount.

20 **Q. HOW WILL THE PROPOSED LIAP PROVIDE MATERIAL BENEFITS FOR**  
21 **QUALIFYING PARTICIPANTS?**

22 A. The 50% LIAP discount on the basic service charge will reduce Arizona-American's  
23 monthly basic service charge from \$8.20 to \$4.10, thereby reducing the typical Sun City  
24 Water District residential customer's monthly bill from \$15.41 to \$11.31 per month, a

1           27% reduction in the overall monthly water bill. A 27% reduction to a qualifying  
2           household's monthly water bill provides a significant benefit to that household.

3   **Q.   HOW WILL THE PROPOSED LIAP BE EFFICIENTLY ADMINISTERED?**

4   A.   As I stated earlier, \$1 Energy is an industry leader in creating and administering water  
5           utility assistance low income programs. Our employees have years of experience in  
6           administering various LIAPs. Furthermore, we have been working with American  
7           Water's national customer service call center in Alton, Illinois on LIAP eligibility  
8           verification since 1997. We know how to expeditiously and effectively interact with  
9           American Water's Customer Service Department to deliver the results for Arizona-  
10          American and its LIAP applicants.

11   **Q.   WHY IS IT APPROPRIATE TO LIMIT THE ENROLLMENT TO THE FIRST**  
12       **1,000 ELIGIBLE CUSTOMERS?**

13   A.   It is wise for Arizona-American and the Commission to evaluate the costs, eligibility  
14           guidelines, amount of discount, acceptability and overall effectiveness of a limited LIAP  
15           before funding a more expanded LIAP. Publicly available data suggests that 19.5% of  
16           the Sun City Water District households meet the eligibility criteria of the proposed LIAP.  
17           Applying that percentage to the Sun City Water District's customer base of  
18           approximately 22,000 customers suggests roughly 4,300 eligible participants. Based on  
19           my prior experience administering other low-income programs, Arizona-American can  
20           expect that less than one half of those eligible customers will elect to participate in the  
21           LIAP. It is important to note that not every household that meets the established  
22           eligibility criteria needs assistance paying monthly expenses. Further, as table 1 shows,  
23           water is already relatively affordable in Sun City.

24   **Q.   HOW MUCH WOULD THE LIAP PROGRAM COST?**

1 A. Ignoring the aggregate amount of the resulting reductions in the monthly bills to the Sun  
2 City Water District customers enrolled in the LIAP, Arizona-American will be required  
3 to pay \$1 Energy a \$5,300 initial set up fee for the first three months of the program and  
4 \$2,500 per month thereafter. Hence, the on-going annual charge from \$1 Energy is  
5 \$30,000. The fees charged by \$1 Energy cover all the program administration expenses  
6 including enrollment, income and guideline verification, and payment counseling. Also,  
7 there will be additional costs to Arizona-American to supply outreach materials,  
8 conservation kits, and seasonal bill inserts that promote the availability of the LIAP.

9 **Q. HOW WILL THE COST OF THE PROGRAM BE RECOVERED?**

10 A. Typically, the costs of a LIAP, including the amount of the monthly reductions to  
11 customer bills, are recovered by the utility from a variety of sources, including increased  
12 rates to the utility's customers, reductions in the utility's uncollectible accounts  
13 receivables and charitable donations. Mr. Broderick will address this question more  
14 specifically in his rebuttal testimony.

15 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

16 A. Yes.

**EXHIBIT CD - 1**

## **Curriculum Vitae of Cindy Datig**

### **Professional Experience**

**Dollar Energy Fund, Inc.**  
Pittsburgh, Pennsylvania 15203

**1986-present**

Executive Director.

Organizational oversight including managing administrative, programmatic, financial operations and 40 staff. Building strong community collaborations, maintaining relations with regional and federal governments, forming corporate partnerships, talent recruitment and retention, strategic leadership, obtain and oversee contracts, establish performance measurements and goals, represent the organization on national, state and local levels, development of innovative programs and entrepreneurial service projects, research, designing performance measurements, advocacy, develop policies and legislation, proposal writing, support the Board of Directors and it's committees.

**Allegheny County Department of Community Services**  
Pittsburgh, Pennsylvania 15222

**1985-1986**

Community Program Supervisor.

Administrator of the federally funded Energy Assistance Program for the second largest County in Pennsylvania. Coordination of Energy Assistance Program, supervising a staff of 30, provide reporting for federal and local funding agencies and represent the organization on numerous community Boards. Testify at budget hearings, public speaking, develop and critique legislation.

Director of the Free Summer Feeding Program

Supervised 150 temporary seasonal staff at 130 feeding sites including parks, schools, and low-income housing sites. Developed RFP's, liaison with state funding agencies, preparing budgets, writing proposals.

**Mt. Lebanon Manor**  
Pittsburgh, Pennsylvania  
Licensed Practical Nurse.

**1978-1979**

Nursing of the elderly. Supervision of support staff.

**St. Francis Psychiatric Hospital**  
Pittsburgh, Pennsylvania  
Licensed Practical Nurse.

**1977-1978**

Nursing care of the highly agitated psychiatric patients.

**Affiliations**

National Low Income Energy Consortium (Chair-2005-present)  
National Low Income Energy Consortium (Vice Chair 1993-2005)  
National Fuel Funds Network (Chair 1990-1991) (Vice Chair 1990-1995)  
Pennsylvania Public Utility Commission Advisory Council (1995-present)  
The Pennsylvania Energy Assistance and Weatherization Coalition (1997-present)  
The Pennsylvania Weatherization Policy and Advisory Council (2004-present)  
The Pegasus Project (2002-2007)

**Education/ Training**

BS, Public Administration-Point Park College 2001  
Non-Profit Management Institute, Carnegie Mellon University-1994  
The Leadership Pittsburgh Program-1990  
Connelly Skill and Learning Center-Licensed Practical Nurse-1975-current

**Awards**

National Fuel Funds Network Sister Pat Kelley Achievement Award-1999  
Pennsylvania Public Utility Commission Appreciation Award-2001  
National Fuel Funds Media Fair-1995-2005  
The National Victorine Q. Adams Award-2004  
2004 Athena Award Finalist  
People Do Matter Award Finalist

**National Research Project**

Co-Author of a report providing background information and perspectives on Low-Income Water Assistance Programs-A report to the Water Utility Council of the American Water Works Association.

**Testimony provided to the following:**

Department of Welfare  
U.S. Congress Subcommittee  
Arizona American Water  
Pennsylvania American Water  
Duquesne Light Company  
Pennsylvania Public Utility Commission  
Pennsylvania State House of Representatives  
Pennsylvania State Senators